

# Sun TV Network

## 4QFY17 Result Update

*Weak quarter; Robust Outlook*

Sector: Media  
 CMP: ` 810  
 Recommendation: Buy

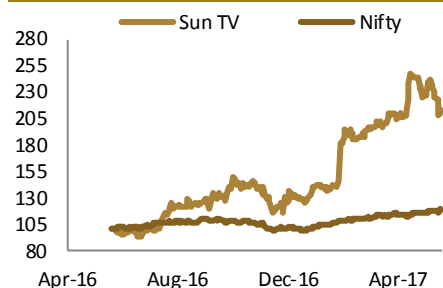
### Market statistics

Current stock price (₹)	810
Shares O/S (cr.)	39.4
Mcap (₹ cr)	31,911
52W H/L (₹)	950/334
6m avg. volume	2,429,211
Bloomberg	SUNTV.IN

### Shareholding pattern

Promoters	75.00
Domestic Institution	1.62
Foreign Institution	16.24
Non-institution	7.14
of which more than 1%	
Selvam Selvi	1.78
Shanmugasundaram Selvam	1.74

### Sun TV Network vs Nifty



### Capital efficiency & valuations

Particulars	FY17	FY18E	FY19E
RoE (%)	25.6	24.4	24.5
EPS (₹)	26.2	28.9	33.9
CEPS (₹)	36.3	38.6	44.4
P/E (x)	30.9	28.0	23.8
P/BV (x)	7.6	6.6	5.7
EV/EBITDA (x)	17.3	15.2	13.0
Income growth (%)	7.0	13.5	14.1
EBITDA growth (%)	2.1	12.3	15.2
PAT growth (%)	14.7	13.7	17.3

Standalone 4Q revenues (+2.1% YoY) were lower than our estimate, as Sun TV reported lower Advertisement revenues compared to our expectations. Advertising growth was down 6.7% YoY, impacted by demonetisation. Adjusted EBITDA (net of Movie acquisition costs) stood at `3.93bn, was lower than our estimates on account of sharp increase in operating cost (increased content spends and higher proportion of commissioned programs and accumulated CSR spends of Rs160mn). Advertisement rate hike and monetization of market share in Telugu would drive healthy advertisement growth in FY18E. Management stated that investment in content across the channels would continue and especially in non-Tamil channels as focus is on reviving market share in Kannada and Malayalam channels. 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:** Standalone revenue was up 3.1% YoY to Rs5.8bn, impacted by weak advertisement revenue growth. Advertisement revenue declined 6.7% YoY to Rs2.9bn. Subscription revenue at Rs2.8b grew 10.7% YoY. EBITDA stood at Rs3.9bn was down 7.7% YoY with EBITDA margin of 67.6% (-717bps YoY), miss of 11.2%. Programming and content cost at Rs617mn was up 33% YoY, attributable to aggressive content launches across the channels with higher focus on non-fiction content. Other expenses increased 81% to Rs628mn as it included Rs160mn of CSR expense. PAT at Rs2.36bn was down 1.7% YoY, which was aided by lower amortization and higher other income.

**Concall Highlights** 1) Decline in advertisement revenues was on account of ~Rs750-800mn loss in Tamil revenues during 5 months of demonetization. 2) Advertising inventory has improved better than H2FY17. Revenue from Gemini TV (Telugu Channel) is 45%. 3) The company has increased the advertisement rates across the channels from April 2017. 4) The company had taken HUL head-on as they did advertise for ~10-15 days in April. There could be impact on volumes during transition as company has taken substantial increase in advertisement rates. 5) Digitization: There is not much of clarity on the 3 month timeline to implement digitization by ARASU. From ARASU, Sun TV gets Rs1.67/sub/month as subscription revenues. 6) Content cost and strategy: Increase content cost is attributable to a) majority of the shows are now on commissioned model on non-Tamil markets, b) aggressive spends on non-fiction content on the non-Tamil channels, c) big ticket show on Tamil channel.

**Depreciation and amortization:** Depreciation was Rs150mn vs amortization of Rs620mn. Focus continues to remain on lower spends on movies. In FY17 spends on movies rights was Rs3.4bn as compared to Rs4.1bn in previous years. Going forward, the company is expecting spends to remain under Rs3bn for FY18. Despite lower spends the company would continue to choose good titles.

**Our Buy rating is based on assumptions which we believe are conservative.** We assume: (1) 10% YoY growth in advertisement revenues in FY18; (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 FY18, and; (5) No subscription revenue upside from potential distribution of Sun's channels on US cable networks.

**Valuations and risks.** At CMP of `810, Sun TV Network is trading at 1-yr forward EV/EBITDA of 15.2x. 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.

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**Exhibit 1: Quarterly details**

mn	4QFY16	3QFY17	4QFY17	QoQ (%)	YoY (%)
<b>Revenues</b>	<b>5,707</b>	<b>5,894</b>	<b>5,825</b>	<b>(1.2)</b>	<b>2.1</b>
- Operating costs	1,441	1,497	1,889	26.2	31.1
<b>EBITDA</b>	<b>4,266</b>	<b>4,397</b>	<b>3,936</b>	<b>(10.5)</b>	<b>(7.7)</b>
<b>EBITDA margin (%)</b>	<b>74.7</b>	<b>74.6</b>	<b>67.6</b>	<b>(702)bps</b>	<b>(717)bps</b>
- Interest expense	8	7	2	(70.0)	(72.4)
- Depreciation	1,007	1,107	767	(30.8)	(23.9)
+ Other income, net (incl forex)	223	389	374	(4.1)	67.6
<b>PBT</b>	<b>3,475</b>	<b>3,673</b>	<b>3,541</b>	<b>(3.6)</b>	<b>1.9</b>
- Taxes	1,294	1,272	1,182	(7.0)	(8.7)
Effective tax rate (%)	37.2	34.6	33.4	(125)bps	(387)bps
<b>PAT</b>	<b>2,180</b>	<b>2,401</b>	<b>2,359</b>	<b>(1.7)</b>	<b>8.2</b>
Net margin (%)	38.2	40.7	40.5	(23)bps	229bps

Source: Company

**Exhibit 2: Revenue break-up**

mn	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
Total ad revenue	3,320	3,530	3,295	3,254	3,130	3,400	3,387	3,008	2,920
YoY Growth	7.8	14.9	13.1	1.5	(5.7)	(3.6)	2.8	(7.6)	(6.7)
<b>Subscription revenue</b>									
Analog	570	540	576	580	600	740	680	750	710
YoY Growth	11.8	12.5	17.5	-	5.3	37.0	18.1	29.2	18.3
DTH	1,350	1,390	1,399	1,503	1,560	1,580	1,610	1,670	1,710
YoY Growth	11.6	8.6	7.6	13.1	15.6	13.7	15.1	11.1	9.6
International	340	370	354	350	360	380	400	390	370
YoY Growth	9.7	12.1	4.1	(2.8)	5.9	2.7	13.0	11.2	2.8
<b>Total sub. Revenue</b>	<b>2,260</b>	<b>2,300</b>	<b>2,328</b>	<b>2,433</b>	<b>2,520</b>	<b>2,700</b>	<b>2,690</b>	<b>2,810</b>	<b>2,790</b>
<b>YoY Growth</b>	<b>11.3</b>	<b>10.0</b>	<b>9.3</b>	<b>7.2</b>	<b>11.5</b>	<b>17.4</b>	<b>15.5</b>	<b>15.5</b>	<b>10.7</b>

Source: Company



## Financials

### Income Statement (` mn)

Year End-March	FY15	FY16	FY17	FY18E	FY19E
<b>Revenues</b>	<b>23,954</b>	<b>24,736</b>	<b>26,457</b>	<b>30,040</b>	<b>34,290</b>
Op. Expenses	7,181	7,409	8,759	10,159	11,388
<b>EBITDA</b>	<b>16,772</b>	<b>17,327</b>	<b>17,698</b>	<b>19,881</b>	<b>22,902</b>
Other Income	989	1,163	1,538	1,400	1,725
Depreciation	6,153	4,967	4,005	3,813	4,143
<b>EBIT</b>	<b>11,608</b>	<b>13,524</b>	<b>15,232</b>	<b>17,468</b>	<b>20,484</b>
Interest	23	22	10	20	24
<b>PBT</b>	<b>11,586</b>	<b>13,502</b>	<b>15,222</b>	<b>17,448</b>	<b>20,460</b>
Tax	3,760	4,768	5,203	6,060	7,105
<b>PAT</b>	<b>7,826</b>	<b>8,734</b>	<b>10,019</b>	<b>11,388</b>	<b>13,354</b>
Minority	(6)	310	288	-	-
<b>Adj Pat</b>	<b>7,820</b>	<b>8,954</b>	<b>10,307</b>	<b>11,388</b>	<b>13,354</b>

### Key Parameters

Year End-March	FY15	FY16	FY17	FY18E	FY19E
<b>Per share (`)</b>					
EPS	19.8	22.7	26.2	28.9	33.9
CEPS	35.5	35.5	36.3	38.6	44.4
BVPS	87.3	91.9	106.6	122.6	142.5
DPS	11.3	15.5	10.0	11.0	12.0
Payout (%)	66.3	79.8	44.7	44.5	41.4
<b>Valuation (x)</b>					
P/E	19.1	16.6	30.9	28.0	23.8
P/BV	4.3	4.1	7.6	6.6	5.7
EV/EBITDA	8.3	7.7	17.3	15.2	13.0
Dividend Yield (%)	3.0	4.1	1.2	1.4	1.5
<b>Return ratio (%)</b>					
EBITDA Margin	70.0	69.0	66.9	66.2	66.8
PAT Margin	32.7	35.1	37.9	37.9	38.9
ROAE	23.1	24.7	25.6	24.4	24.5
ROACE	34.3	36.4	37.8	37.5	37.6
<b>Leverage Ratios (x)</b>					
Long Term D/E	-	-	-	-	-
Net Debt/Equity	(0.3)	(0.4)	(0.3)	(0.3)	(0.4)
Debt/EBITDA	-	-	-	-	-
Interest Coverage	-	-	-	-	-
Current ratio	9.7	9.7	8.1	8.4	9.2
<b>Growth Ratios (%)</b>					
Income growth	7.7	7.3	7.0	13.5	14.1
EBITDA growth	11.1	5.8	2.1	12.3	15.2
PAT growth	5.0	15.3	14.7	13.7	17.3
<b>Turnover Ratios</b>					
F.A Turnover x	2.2	3.0	2.2	2.2	2.3
Debtors Days	96	112	110	111	112
Payable days	18	35	32	30	30

### Balance Sheet (` mn)

Year End-March	FY15	FY16	FY17	FY18E	FY19E
Equity Share Capital	1,970	1,970	1,970	1,970	1,970
Reserves & Surplus	32,445	34,227	38,314	44,630	52,452
<b>Total Shareholders Fund</b>	<b>34,415</b>	<b>36,197</b>	<b>40,285</b>	<b>46,601</b>	<b>54,422</b>
<b>Minority Interest</b>	<b>547</b>	<b>1,756</b>	<b>36</b>	<b>36</b>	<b>36</b>
<b>Non- current liabilities</b>	<b>269</b>	<b>238</b>	<b>655</b>	<b>688</b>	<b>708</b>
Deferred tax liabilities	226	176	521	521	521
Other LT liabilities & Prov	43	62	134	167	187
<b>Current Liabilities</b>	<b>2,219</b>	<b>2,704</b>	<b>2,807</b>	<b>3,229</b>	<b>3,619</b>
Trade payables	719	817	722	835	936
Other cur liabilities & Prov	1,500	1,886	2,085	2,394	2,683
<b>Total Liabilities</b>	<b>37,450</b>	<b>40,894</b>	<b>43,782</b>	<b>50,553</b>	<b>58,786</b>
<b>Assets</b>					
<b>Non- current Assets</b>	<b>17,415</b>	<b>14,593</b>	<b>21,153</b>	<b>23,352</b>	<b>25,633</b>
Fixed assets	11,372	8,674	12,087	13,587	15,087
Non-current investments	2,694	3,783	4,252	4,252	4,252
Long-term loans & adv	3,075	1,820	2,586	2,963	3,382
Other non-current assets	273	317	2,229	2,551	2,912
<b>Current assets</b>	<b>20,035</b>	<b>26,301</b>	<b>22,629</b>	<b>27,201</b>	<b>33,153</b>
Current investments	2,802	2,557	5,455	5,455	5,455
Trade receivables	7,575	8,246	7,726	8,806	10,052
Inventories	5	11	9	10	11
<b>Cash &amp; bank balances</b>	<b>7,593</b>	<b>10,931</b>	<b>6,618</b>	<b>9,720</b>	<b>13,971</b>
Short-term loans & adv	1,095	1,120	971	1,152	1,315
Other current assets	966	3,437	1,850	2,058	2,349
<b>Total Assets</b>	<b>37,450</b>	<b>40,894</b>	<b>43,782</b>	<b>50,553</b>	<b>58,786</b>

### Cash flow Statement

Year End-March	FY15	FY16	FY17	FY18E	FY19E
<b>PBT</b>	<b>11,586</b>	<b>13,777</b>	<b>15,222</b>	<b>17,448</b>	<b>20,460</b>
Depreciation	6,119	4,999	4,350	3,813	4,143
Interest Exp	23	22	10	20	24
Others	135	1,141	(1,432)	-	-
CF before W.cap	17,863	19,939	18,150	21,281	24,627
Inc/dec in W.cap	2,734	1,458	246	1,714	2,070
Op CF after W.cap	15,129	18,482	17,904	19,567	22,556
Less Taxes	3,760	4,755	5,203	6,060	7,105
<b>Net CF From Operations</b>	<b>11,370</b>	<b>13,727</b>	<b>12,701</b>	<b>13,507</b>	<b>15,451</b>
Inc/(dec) in F.A + CWIP	4,213	2,351	7,418	5,313	5,643
(Pur)/sale of Investments	342	844	3,366	-	-
Others	(23)	(22)	(10)	(20)	(24)
<b>CF from Invst Activities</b>	<b>(4,578)</b>	<b>(3,217)</b>	<b>(10,794)</b>	<b>(5,333)</b>	<b>(5,667)</b>
Loan Raised/(repaid)	-	-	-	-	-
Equity Raised	(106)	(25)	(1,609)	0	(0)
Dividend	5,187	7,147	4,611	5,072	5,533
Others	-	-	-	-	-
<b>CF from Fin Activities</b>	<b>(5,293)</b>	<b>(7,172)</b>	<b>(6,219)</b>	<b>(5,072)</b>	<b>(5,533)</b>
Net inc /(dec) in cash	1,499	3,338	(4,312)	3,102	4,251
<b>Op. bal of cash</b>	<b>6,094</b>	<b>7,593</b>	<b>10,931</b>	<b>6,618</b>	<b>9,720</b>
<b>Cl. balance of cash</b>	<b>7,593</b>	<b>10,931</b>	<b>6,618</b>	<b>9,720</b>	<b>13,971</b>



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