

Buy

Sun TV Network

Industry: Media

LKP
 Since 1948

DTH, new tariff order, digitization to buoy cash flows

Q3 numbers above expectations on solid subscriber revenues

Sun TV Network Ltd(Sun TV)'s Q3 FY19 numbers came above our expectations as both Subscription as well as Advertising revenues grew strongly at 24% and 13% yoy respectively. Management highlighted that despite dip in market share in Q3, there has been a good revival in January. Cable TV revenues grew 24.3% on new tariff regime implementation, while DTH revenues grew by 24.1% pulling up the overall domestic Subscription revenues by 24.2% yoy. Also the continued process of digitization of Phase III and Phase IV in South India assisted growth. Movies business witnessed a strong growth on movie release and its success. On the back of such a splendid performance, total revenues in the quarter grew by 32% yoy and 20.7% qoq. Although the cost of revenues increased by 51% yoy (13.6% of sales vs 11.9% yoy and 12% qoq), employee costs came down to 7.9% vs 10.6%. As a result of this EBITDA margins came in at 73.8% v/s 72% yoy. D&A expenses were up by 54% as movie inventory related amortization came in at ₹1.6 bn. Despite higher tax rate at 35.2%, with additional support from other income, bottomline increased by 32% yoy at ₹ 3.5 bn. Management clarified that they are currently not mulling any buyback. It has declared 50% interim dividend in Q3.

Advertising revenues to accelerate further on newer content and launches

Revenue from advertising and broadcast fee grew 13% yoy in Q1FY19 to ₹ 3.8bn which was slightly lower in our view as compared to the last few quarters. However, the company grew almost in line with the industry with slight market share losses in its geographies of operation. While Tamil and Malayalam markets grew modestly, Telugu and Kannada each grew at 18-20% as realizations grew over there on better content and new serial launches. The company has recently added to its content by launching 2-3 new fictional shows in TN market and is expecting to raise its market share in TN market as well. Sun Bangla, the newly Bangla GEC launched by Sun TV on the 3rd of February is promising with 3.5 hrs of original programming initially with 7 serials and is expected to break even by the end of second year. The company has launched fictional serials in mythological, historical and thriller genres to name a few. Sun has also established a strong distribution network in Bengal and the channel is getting a strong response over there. Also the company will launch a Marathi GEC by end of CY 20. These initiatives will keep Ad revenue momentum afloat. We expect a 13-15% growth in the Ad revenues for FY19E/20E/21E.

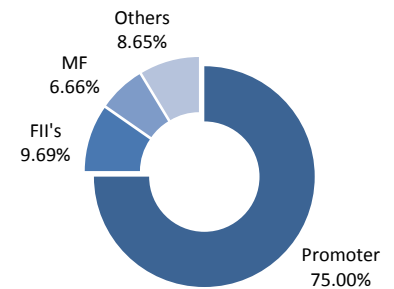
New tariff regime to keep Subs revenues buoyant along with digitization

Sun's subscription revenues have grown by 24% in Q3 as digitization wave has proliferated in TN with market conditions easing over there. DTH and cable subscription revenue rose 24% each yoy. Management indicated that digitization is progressing at a good pace in Tamil Nadu and should be completed by June end. A higher preference towards DTH should aid in Sun TV realizing a higher ARPU. Digitization has led to increase in ARPU of Sun and will rise further as the process reaches completion. On the back of new tariff regime, Sun's channels are preferred by almost all viewers and are therefore included in the base pack. This will ensure continuation of inflated ARPUs even after digitization wave settles down post June. Management has maintained their domestic subscription revenue guidance at 25% much above the 15% growth seen in Q1 and expects it to add ₹ 3-4bn to the topline each quarter.

Stock Data

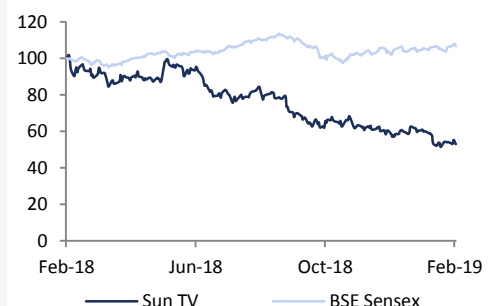
Rating	Buy
Current Market Price(₹)	567
12 M Price Target (₹)	783
Potential upside (%)	38
FV (₹)	5
Market Cap Full (₹ bn)	223
52-Week Range (₹)	1,028 / 487
BSE / NSE Code	532733 / SUNTV
Reuters / Bloomberg	SUNTV BO / SUTV. IN

Shareholding Pattern (December 2018)



YE Mar	FY18	FY19E	FY20E	FY21E
Revenues(₹ mn)	29,631	37,599	44,532	52,481
EBITDA margins(%)	67.6%	71.7%	71.9%	72.3%
PAT margins (%)	37.6%	42.1%	42.0%	42.0%
EPS (₹)	28.5	40.4	47.5	56.0
EPS growth (%)	11.1%	42.2%	18.0%	18.0%
P/E (x)	19.9	14.0	11.9	10.1
P/B(x)	4.7	3.8	3.1	2.5
EV/EBITDA (x)	10.9	7.7	6.1	4.8
ROCE(%)	32.5%	36.9%	36.3%	35.6%
ROE(%)	23.7%	27.4%	26.3%	25.2%
Dividend payout (%)	35.4%	26.0%	24.0%	21.0%

Relative Price Performance



Q3FY19 Result Highlights

All fig in ₹ mn	Q3 FY19	Q2 FY19	% qoq	Q3 FY18	% yoy
Net sales	9,045	7,496	21%	6,833	32%
Operating expenses	1,228	901	36%	811	51%
IPL	0	0	N/A	0	N/A
Employee costs	717	735	-2%	722	-1%
Other expenses	428	320	34%	380	13%
EBITDA	6,672	5,540	20%	4,921	36%
% margins	73.8%	73.9%	(10 bps)	72.0%	180 bps
Depreciation	1,761	819	115%	1,145	54%
EBIT	4,911	4,721	4%	3,776	30%
Other income	516	621	-17%	291	77%
Interest	7.1	5.7	25%	0.6	1083%
Exceptional items	0.0	0.0	N/A	0.0	N/A
PBT	5,420	5,336	2%	4,066	33%
Tax	1,907	1,823	5%	1,397	37%
PAT	3,513	3,513	0%	2,670	32%
Adjusted PAT	3,513	3,513	0%	2,670	32%

Source: Company, LKP Research

Outlook and valuation

Sun has been posting strong set of numbers consistently. Q3 has also been one of the strongest quarters for Sun. On the advertising business, despite loss of market shares across board, there has been improvement off late at the start of Q4. With new content in Tamil markets and benefit of higher rates and demand for better content in Telugu and Kannada markets kept the growth strong. With recently launched new GECs in TN and Telugu markets and foray into Bangla market, we see an additional growth in Ad business in coming quarters. Subscription revenues are on an up-move on TN digitization wave and has huge potential left with rapid proliferation of the same in the state. The new tariff order has provided impetus to the subscription revenues as ARPUs are scaling up. Going forward, these two businesses along with their levers shall drive numbers. Additionally, IPL boost with higher revenues and lower costs will aid margin performance. Though new content and launches may lead to higher costs, operating leverage may lead to higher margins. We also expect a big surge in movies business from the recently released Rajinikanth/Vijay movie 'Petta' which may increase D&A costs, but at the same time earn revenues which would more than offset these costs. On the back of bright prospects, we remain sanguine and expect strong 26% CAGR in bottomline in FY18-21E. The stock is currently trading at attractive valuations of 10x on FY 21E earnings of ₹ 56. We value the stock at 14x times FY 21E earnings and recommend a BUY rating with a target of ₹ 783.

Financials
Income statement

YE Mar (₹.mn)	FY 18	FY 19E	FY 20E	FY 21E
Total Revenues	29,631	37,599	44,532	52,481
Cost of revenue	3,883	4,211	4,898	5,720
Employee Cost	3,145	3,271	4,008	4,723
Other Exp	2,564	3,158	3,607	4,093
EBITDA	20,039	26,958	32,018	37,944
EBITDA Margin(%)	67.6%	71.7%	71.9%	72.3%
Other income	1423	1950	2100	2300
Depreciation	4,500	5,264	5,789	6,298
Interest	11	20	22	24
PBT	16,951	23,625	28,307	33,922
PBT Margin(%)	57.2%	62.8%	63.6%	64.6%
Tax	5,823	7,796	9,624	11,873
Adj PAT	11,128	15,828	18,683	22,049
Adj PAT Margins (%)	37.6%	42.1%	42.0%	42.0%
Exceptional items	0.0	0.0	0.0	1.0
PAT	11,128	15,828	18,683	22,049
PAT Margin (%)	37.6%	42.1%	42.0%	42.0%

Key Ratios

YE Mar (₹ mn)	FY 18	FY 19E	FY 20E	FY 21E
Per Share Data (₹)				
Adj. EPS	28.5	40.4	47.5	56.0
CEPS	40.0	53.8	62.3	71.9
BVPS	120.0	147.5	181.0	222.4
DPS	12.1	12.6	13.7	14.1
Growth Ratios(%)				
Total revenues	12.0%	26.9%	18.4%	17.9%
EBITDA	13.2%	34.5%	18.8%	18.5%
PAT	11.1%	42.2%	18.0%	18.0%
EPS Growth	11.1%	42.2%	18.0%	18.0%
Valuation Ratios (x)				
PE	19.9	14.0	11.9	10.1
P/CEPS	14.2	10.5	9.1	7.9
P/BV	4.7	3.8	3.1	2.5
EV/Sales	4.7	3.8	3.1	2.5
EV/EBITDA	10.9	7.7	6.1	4.8
Operating Ratios (Days)				
Receivable Days	131.1	120.0	112.0	108.0
Payables day	10.3	10.7	10.9	11.1
Net Debt/Equity (x)	-0.08	-0.25	-0.38	-0.44
Profitability Ratios (%)				
ROCE	32.5%	36.9%	36.3%	35.6%
ROE	23.7%	27.4%	26.3%	25.2%
Dividend payout	35.4%	26.0%	24.0%	21.0%
Dividend yield	2.1%	2.2%	2.4%	2.5%

Balance sheet

YE Mar (₹ mn)	FY 18	FY 19E	FY 20E	FY 21E
EQUITY AND LIABILITIES				
Shareholder's funds				
Share capital	1,970	1,970	1,970	1,970
Reserves and surplus	44,954	55,844	69,146	85,639
Total networkth	46,924	57,814	71,116	87,609
Non current liabilities				
Long term borrowings and provisions	0	0	0	0
Deferred tax liabilities	770	870	970	1070
Other long term liabilities	131	126	121	116
Current liabilities				
Current liabilities and provisions	1007	1329	1610	1927
Other current liabilities	3926	4120	4270	4601
Total equity and liabilities	52,756	64,258	78,087	95,322
ASSETS				
Net block	7,169	6,905	6,116	4,819
Capital work in progress	474	524	594	664
Long term investments	6,238	6,638	7,138	7,638
Long term loans and advances	291	391	591	791
Other non current assets	3,327	3,827	4,427	5,027
Total non current assets	21,744	22,731	23,711	24,184
Current assets				
Inventories	9	3	10	10
Trade receivables	10,639	12,361	13,665	15,529
Cash and cash equivalents	3,726	14,502	27,036	38,925
Investments	15,152	13,152	12,152	15,152
Short term loans and advances	1,043	1,103	1,163	1,223
Other current assets	449	399	349	299
Total current assets	31,012	41,528	54,375	71,138
Total Assets	52,756	64,258	78,087	95,322

Cash Flow

YE Mar (₹ mn)	FY 18	FY 19E	FY 20E	FY 21E
PBT	16,951	23,625	28,307	33,922
Depreciation	4,500	5,264	5,789	6,298
Interest	11	20	22	24
Chng in working capital	-4,736	-1,729	-1,289	-1,989
Tax paid	-5,823	-7,796	-9,624	-11,873
Other operating activities	-1,144	-1,647	-1,344	-1,444
Cash flow from operations (a)	9,758	17,736	21,860	24,938
Capital expenditure	-4,429	-5,050	-5,070	-5,070
Chng in investments	-1,735	1,400	1,609	-1,936
Other investing activities	-133	-257	-557	-557
Cash flow from investing (b)	-6,298	-3,907	-4,018	-7,563
Free cash flow (a+b)	3,461	13,829	17,842	17,374
Inc/dec in borrowings	211	95	95	95
Dividend paid (incl. tax)	-4,742	-4,938	-5,381	-5,556
Other financing activities	0	0	0	0
Interest paid	-11	-20	-22	-24
Cash flow from financing (c)	-4,542	-4,863	-5,308	-5,485
Net chng in cash (a+b+c)	-1,082	8,965	12,534	11,889
Closing cash & cash equivalents	5,537	14,502	27,036	38,925

Source: Company, LKP Research

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