

Sun TV Network Ltd.

BUY

May 14, 2021

Sun TV Network Ltd. (STNL) established in 1992, is engaged in producing and broadcasting satellite television and radio software programming. It is one of the largest Television & Radio entertainment company, with a dominant position in the southern states of India. STNL's flagship channel, Sun TV is one of the most watched channels in India. Revenue for 9M FY21 de-grew by 14% YoY and stood at Rs. 2,374.3cr. EBITDA and PAT for the period de-grew by 14.1% and 8.9% YoY to be at Rs. 1,519.3cr and Rs. 1,038cr, respectively.

Investment rationale:

Advertisement revenue to be a growth driver: STNL's advertisement revenue constituted 42% of the total revenue in FY20. Majority of its share comes from local retail players like local jewelers, silk saree retailers, etc. Advertisement revenue witnessed sequential growth in Q3 FY21 due to a festive quarter, however, low mall footfall due to strict lockdown restrictions led to revenue dip of ~9% YoY. In Q4 FY21, recently concluded assembly elections is likely to have kept the positive momentum in the advertisement momentum. Off lately the re-emergence of the Covid-19 second wave would slower the momentum, but we are confident of sharp revival in the business post ease of restrictions. In 2020, television media remained the largest contributor with 41% market share in the advertisement industry. The industry is expected to grow at a CAGR of 11.6% to reach Rs.70,343cr by 2022. On the back of strong regional presence, we expect STNL's advertisement revenue to grow at 16% CAGR over FY21E- FY23E.

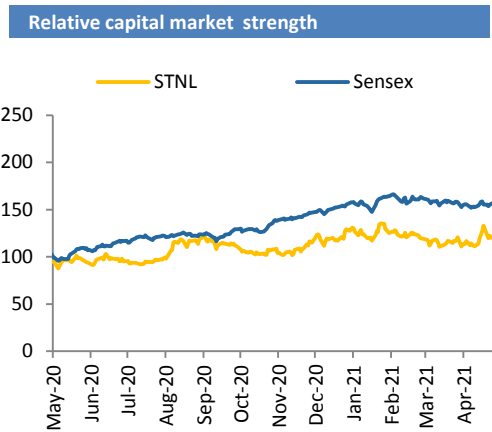
Strong investment in OTT platform and fresh content to propel viewership and subscription: India being the world's fastest growing OTT market, is set to emerge as the world's sixth-largest by 2024. OTT platforms have benefitted highly due to the COVID19 pandemic. STNL's OTT platform, SunNXT has ~18mn subscribers as of Dec. 2020. The company has further planned to invest ~Rs. 250cr in SunNXT in FY22. STNL's subscription business includes OTT and DTH subscriptions. Its DTH revenue grew ~8% YoY in Q3 FY21. The company's flagship channel SUN TV is the third highest watched TV channel in India. It is in the process of launching new shows to boost viewership. After Tamil & Telugu, Marathi channels have the highest contribution in regional viewership. STNL's Marathi channel is expected to be launched in FY22. The company is planning to give investment priority to Tamil & Telugu channels followed by Bengali and Marathi. We anticipate this segment to grow at a 11% CAGR over FY21-FY23E.

Launch of new big budget movies: STNL's movie distribution was affected majorly in the lockdown phase. The company is planning to make investment of ~Rs. 300cr in movie production in FY22. Five big ticket movies are already in process with big celebrities, of which 3-4 are expected to be released in FY22. Some small budget movies are also in the pipeline with investments of Rs. 5-10cr per movie. Regional cinema contributed 47% to the Indian film industry in 2019 and was led by Tamil and Telugu films. India's film industry is expected to clock in estimated revenues of ~Rs. 33,000cr by FY24. STNL's continuous focus towards movie production will be a major growth driver for profits in the coming years.

Valuation: At current market price of Rs. 521.3, STNL is trading at a TTM P/E multiple of 16x. In the last 10 years (i.e. FY10-20), earnings have grown by 10.3% CAGR with an average RoE of 27.3%. During the same period, MCAP has de-grown by 4% CAGR. Going forward, earnings are likely to grow by 8% CAGR with an average RoE of 21.7%. We value STNL at a P/E multiple of 15.5x to its FY22 earnings to arrive at a target price of Rs. 623 per share. Thus we assign **'BUY'** rating to the stock.

Rating matrix	
CMP	Rs. 521.3
Rating	BUY
Target Price	Rs. 623
Upside Potential	19.6%
52 week H/L	Rs. 570/ 355
Face value	Rs. 5
Mar. Cap.	Rs. 20,543.6cr
Category	Mid- Cap
Sector	Broadcasting & Cable TV

Shareholding pattern				
Particulars	Jun'20	Sept'20	Dec'20	Mar'21
Promoters	75.00%	75.00%	75.00%	75.00%
FPIs	10.30%	10.90%	9.40%	9.00%
DII's	5.60%	5.20%	5.10%	4.00%
Non. Inst.	9.10%	8.90%	10.50%	12.00%

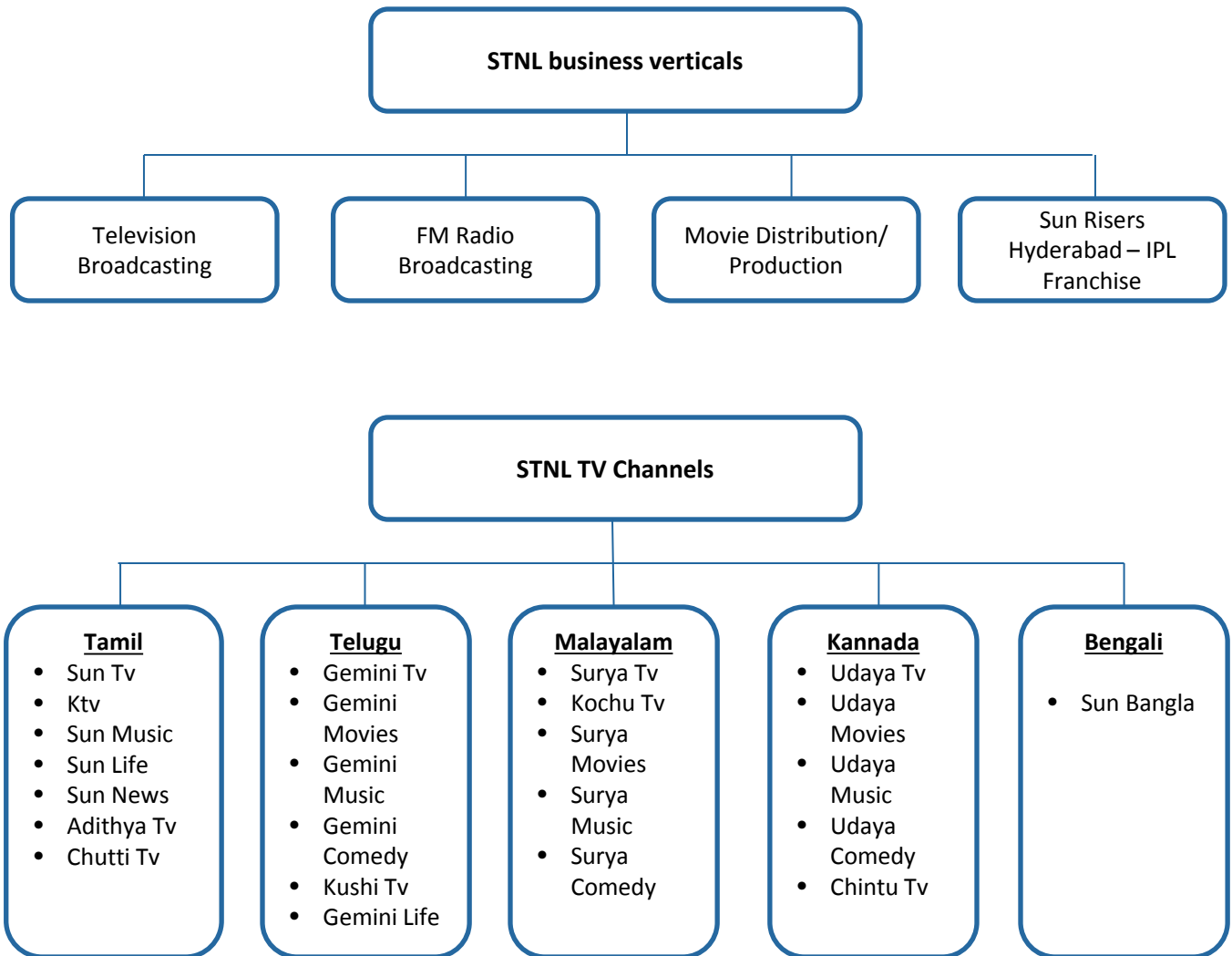


Consolidated financial snapshot (Rs. cr)				
Particulars	FY20	FY21E	FY22E	FY23E
Revenue	3,519.9	3,210.0	3,936.8	4,329.3
EBITDA	2,275.9	2,036.9	2,545.8	2,833.3
EBITDA margin (%)	64.7%	63.5%	64.7%	65.4%
Adjusted PAT	1,389.6	1,370.4	1,585.8	1,748.9
NPM (%)	39.5%	42.7%	40.3%	40.4%
EPS (Rs.)	35.3	34.8	40.2	44.4
RoE (%)	24.2%	21.4%	22.0%	21.7%
P/E (x)		14.9	12.9	11.7
P/BV (x)		3.1	2.8	2.5
P/S(x)		6.4	5.2	4.7

Source: Choice Broking Research

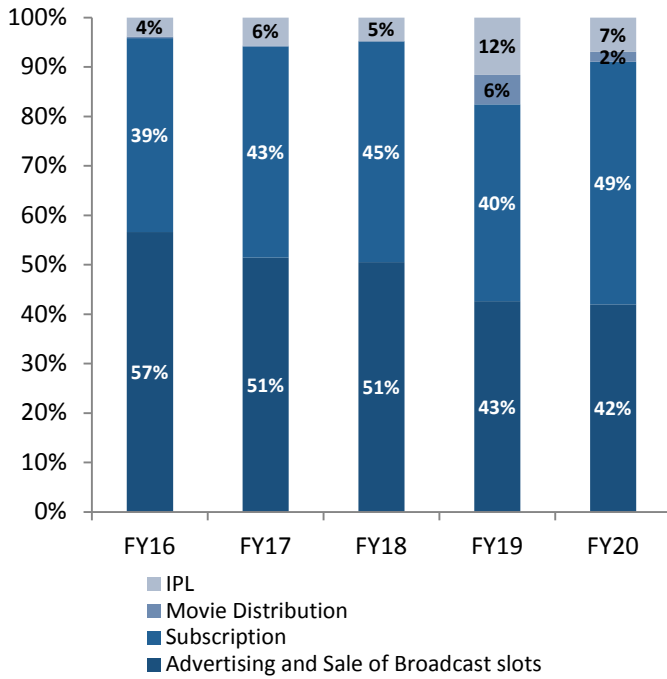
Business Overview:

STNL established by Kalanithi Maran in 1992, is an Indian mass media company, headquartered in Chennai, Tamil Nadu. It is one of the largest television broadcasters in India, operating satellite television channels. It currently operates television channels in Tamil, Telugu, Kannada, Malayalam and Bangla languages. The company has viewers in India, Sri Lanka, Singapore, Malaysia, United Kingdom, Europe, Middle East, United States, Australia, South Africa and Canada. STNL has its presence across genres like entertainment, movies, music, kids, action and life. The company also has a large network in FM Radio broadcasting segment across India through its subsidiaries: Kal Radio Ltd. (98.18%) and South Asia FM Ltd (59.44%). Its radio operations are performed under the brand name RED FM and SURYAN FM. In 2017, the company launched its first OTT app, SunNXT. STNL also has the license to operate an IPL franchise, Sun Risers Hyderabad. Following are STNL's business verticals:

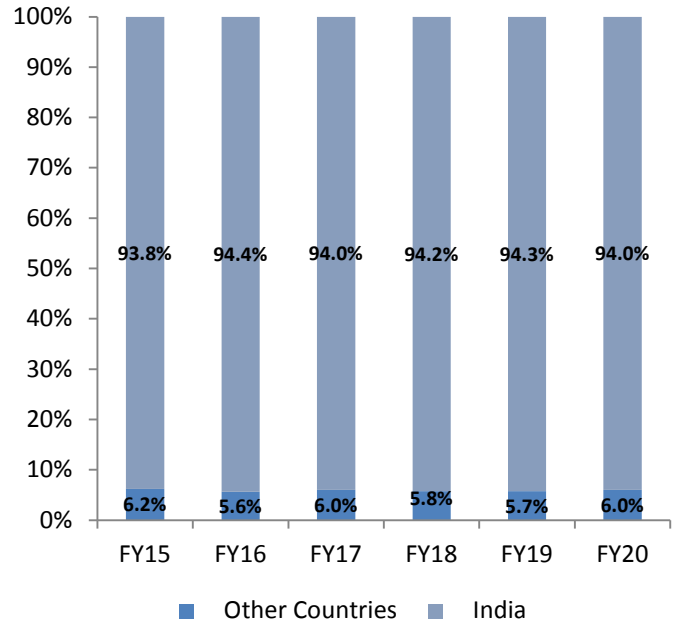


Source: Choice Equity Broking

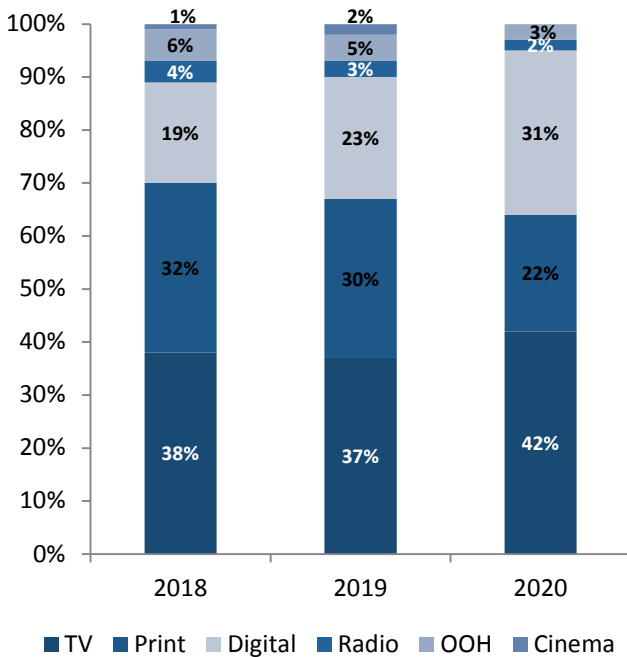
Revenue-mix:



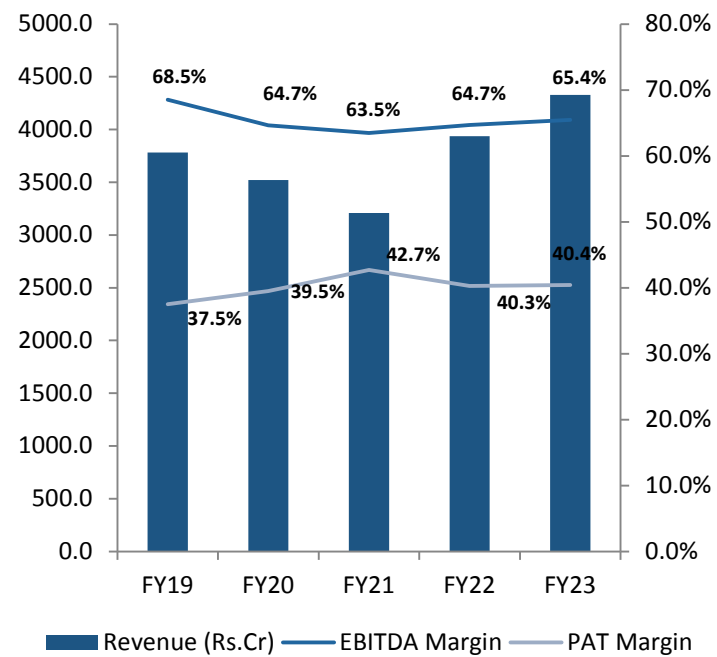
Geographical revenue-mix:



Indian ad industry mix %



Revenue and EBITDA & PAT Margins:



Note: OOH is Out of House Advertisement; Source: Choice Equity Broking

Quarterly analysis:

Particulars (Rs. cr)	Q3FY21	Q3FY20	Change (YoY)	Q2FY21	Change (QoQ)
Operating Income	994.10	847.80	17.26%	768.70	29.32%
EBITDA	608.10	595.30	2.15%	502.1	21.11%
EBITDA Margin (%)	61.17%	70.22%	(905) bps	65.32%	(415) bps
PAT	445.5	384.5	15.86%	335.1	32.95%
PAT Margin (%)	44.81%	45.35%	(54) bps	43.59%	122 bps

Source: Choice Equity Broking

- Total revenue increased by 17.26% YoY in Q3 FY21 and stood at Rs.994.1cr. Revenue growth in the current quarter was mainly due to high IPL revenue from franchise team Sun Risers Hyderabad which stood at Rs. 209cr.
- On YoY basis, advertisement revenue went down due to a decline in revenue from local retail players. However, sequentially, there was significant ramp up in the advertisement revenue due to a festive quarter.
- Subscription revenues witnessed sluggish growth and went up by ~3.3% YoY due to slower digitization in Tamil Nadu. Around 3- 4mn households in the states are yet to be digitized.

Con-call highlights:

- Sun TV's viewership remained flat YoY with market share declining by ~3% in Q3 FY21. The company is continuously launching new shows in the prime time 6:30pm - 10:00pm.
- SunNXT subscription remained flat with ~18mn subscribers in the current quarter.
- The company is planning to release some big ticket non fiction shows and some international comic shows in Q1 FY22.
- International subscription was down in Q3 FY21 due to some agreements being signed off. There are a few pending agreements, which will be executed in the Q4 FY21 quarter.
- Revenue break up for the current quarter: Advertisement revenue- Rs. 309cr, International subscription- Rs. 29cr, Digital revenue Rs. 200cr, DTH revenue Rs. 224cr, IPL- Rs. 209cr.
- STNL has five movies in pipeline with big stars like Rajnikanth, Vijay Sethupati, Dhanush, Suriya and Vijay. Of these, 3-4 movies are expected to be released by in FY22.
- FMCG has continued to be the top contributor to advertisement revenue.

Peer comparison:

Companies	CMP	RoE	12MR(%)	M. Cap (Rs. Cr)	EPS	BVPS	EBIDTA Margin (%)	NPM (%)
Sun TV Network Ltd.	521	20.3%	34%	20544	32.6	160.3	64.6%	41.0%
TV Today Network	278	13.7%	53%	1659	20.6	150.7	25.2%	15.9%
TV 18 Broadcast	36	10.9%	87%	6172	2.7	24.4	15.5%	8.7%
Zee Entertainment	191	-2.6%	20%	18365	-2.5	98.1	6.1%	-3.1%

Companies	P/E (x)	P/Bv (x)	P/Sales(x)	EV/EBIDTA (x)	D/E	PAT(Rs. Cr)	EBIDTA(Rs. Cr)	Sales (Rs. Cr)
Sun TV Network Ltd.	16.0	3.3	6.6	9.8	0.0	1,283	2,025	3,133
TV Today Network	13.5	1.8	2.1	6.9	0.0	123	195	776
TV 18 Broadcast	13.5	1.5	1.2	8.3	0.2	456	808	5,227
Zee Entertainment	-	1.9	2.4	38.5	0.0	(242)	470	7,715

Source: Choice Equity Broking

Consolidated financial statements:

Profit and loss statement (Rs. cr)	FY16	FY17	FY18	FY19	FY20
Revenue from operations	2,474	2,646	2,963	3,783	3,520
Production Expenses	(305)	(358)	(417)	(562)	(601)
Employee Benefits Expense	(107)	(116)	(138)	(154)	(144)
Selling and Distribution Expenses	(10)	(34)	(25)	(47)	(43)
General Administration Expenses	(257)	(297)	(313)	(371)	(334)
Other Expenses	(62)	(121)	(66)	(57)	(122)
EBIDTA	1,733	1,720	2,004	2,593	2,276
Depreciation and amortization expenses	(497)	(400)	(450)	(663)	(700)
EBIT	1,236	1,319	1,554	1,930	1,576
Finance Cost	(2)	(1)	(1)	(2)	(13)
Other Income	116	204	142	241	261
Exceptional items	18	0	0	0	0
Profit before Tax	1,368	1,522	1,695	2,169	1,824
Tax Expenses	(477)	(520)	(582)	(751)	(434)
PAT before Minority Interest	891	1,002	1,113	1,418	1,390
Minority Interest	(1)	(0)	(0)	(0)	(0)
Profit and (Loss) from Associates	31	29	23	15	(4)
Reported PAT	922	1,030	1,135	1,433	1,385
Adjusted PAT	904	1,030	1,135	1,433	1,385

Consolidated balance sheet (Rs. cr)	FY16	FY17	FY18	FY19	FY20
Share Capital	197	197	197	197	197
Total Reserves	3,277	3,831	4,491	5,329	5,527
Minority Interest	3	4	4	4	5
Deferred Tax Assets / Liabilities	21	52	76	105	84
Other Long Term Liabilities	14	13	12	11	81
Long Term Provisions	0	0	1	1	1
Trade Payables	56	72	82	229	317
Other Current Liabilities	178	189	394	302	273
Short Term Provisions	14	19	16	18	21
Total Liabilities	3,759	4,378	5,273	6,197	6,507
Net Block	845	1,212	1,141	1,101	1,137
Capital Work in Progress	1	2	49	13	66
Non Current Investments	392	615	644	718	727
Long Term Loans & Advances	188	230	324	314	298
Other Non Current Assets	12	56	15	5	4
Currents Investments	244	545	1,515	2,093	1,973
Inventories	1	1	0	0	
Sundry Debtors	776	773	1,062	1,134	1,367
Cash and Bank	905	788	373	593	703
Other Current Assets	366	110	126	195	207
Short Term Loans and Advances	30	46	23	29	24
Total Assets	3,759	4,378	5,273	6,197	6,507

Consolidated cash flow statement (Rs. cr)	FY16	FY17	FY18	FY19	FY20
Operating cash flow before working capital changes	1,773	1,823	2,035	2,627	2,338
Changes in working Capital	(6)	(29)	(110)	(66)	(249)
Operating cash flow after working capital changes	1,767	1,794	1,925	2,561	2,089
Cash flow from operating activities	1,299	1,296	1,371	1,824	1,656
Cash Flow from Investing Activities	(401)	(716)	(1,295)	(1,113)	(408)
Cash from Financing Activities	(737)	(475)	(475)	(596)	(1,222)
Net Cash Inflow / Outflow	160	104	(399)	115	25
Opening Cash & Cash Equivalents	398	558	662	264	379
Closing Cash & Cash Equivalent	558	662	263	379	404

Source: Choice Equity Broking

Choice's Rating Rationale

The price target for a large cap stock represents the value the analyst expects the stock to reach over next 12 months. For a stock to be classified as Outperform (Buy), the expected return must exceed the local risk free return by at least 5% over the next 12 months. For a stock to be classified as Underperform (Reduce, Sell), the stock return must be below the local risk free return by at least 5% over the next 12 months. Stocks between these bands are classified as Neutral (Hold).

BUY	Absolute Return >15%
Hold	Absolute Return Between 0-15%
Reduce	Absolute Return 0 To Negative 10%
Sell	Absolute Return > Negative 10%

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