

Sun TV Network (SUNTV IN)

Rating: Not Rated | CMP: Rs489

December 28, 2020

Management Meet Update

Key Financials - Consolidated

Y/e Mar	2017	2018	2019	2020
Sales (Rs. m)	26,457	29,630	37,825	35,199
EBITDA (Rs. m)	17,198	20,038	25,926	22,759
Margin (%)	65.0	67.6	68.5	64.7
PAT (Rs. m)	10,307	11,355	14,337	13,855
EPS (Rs.)	26.1	28.8	36.4	35.1
Gr. (%)	11.8	10.2	26.3	-3.4
DPS (Rs.)	10.0	10.0	12.5	25.0
Yield (%)	1.3	1.2	2.0	8.8
RoE (%)	26.7	25.5	27.8	24.7
RoCE (%)	40.6	38.9	42.5	32.6
EV/Sales (x)	11.6	11.1	6.4	3.0
EV/EBITDA (x)	16.0	15.4	8.5	4.2
PE (x)	30.6	29.4	17.2	8.1
P/BV (x)	7.8	7.1	4.5	2.0

Key Data

SUTV.BO | SUNTV IN

52-W High / Low	Rs.518 / Rs.260
Sensex / Nifty	47,354 / 13,873
Market Cap	Rs.191.5 bn/ \$ 2,603.6m
Shares Outstanding	394.1m
3M Avg. Daily Value	Rs. 1,329.9m

Shareholding Pattern (%)

Promoter's	75.00
Foreign	10.89
Domestic Institution	5.25
Public & Others	8.86
Promoter Pledge (Rs bn)	0.23

Stock Performance (%)

	1M	6M	12M
Absolute	14.5	22.9	8.8
Relative	10.3	(9.1)	(2.5)

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Revamping OTT plan key to re-rating

In our interaction, management of Sun TV highlighted 1) plans to spend Rs2bn towards Sun NXT (OTT offering) and Rs3-4bn towards producing 8 new movies which are scheduled to release in next 12 months (release time-line can be delayed due to second strain of COVID) 2) IPL is likely to yield pre-tax profits of ~Rs1.2bn/Rs1.3-1.4bn in FY21/FY22 respectively and 3) pressure on ad-revenues in FY21 (~25-30% YoY decline is on the cards). Fresh programming has begun in most geographies and as a result ad-volumes (GEC & movie genre) have gradually clawed back to pre-COVID levels. Sun TV has gradually migrated from private producer model (sharing airtime with content creators) to commission model (owning the content & retaining IP) which we believe is a future proof strategy from long term viewpoint. Over FY16-FY20, Sun TV's sales/PAT have grown at a CAGR of 9.2%/10.7% respectively. The company is debt free with liberal pay-outs (average 49% over last 5 years) and had cash balance of ~Rs32bn in 1HFY21. The stock trades at 13.8x/12.6x FY21/FY22 consensus EPS of Rs35.5/Rs38.9 respectively. NOT RATED.

Grossly underinvested in Sun NXT: Sun NXT has ~18mn subscribers (majority of it are acquired through telco partnerships; organic count is less than 10%) with a subscription price of Rs50 per month. While Rs2bn has been ear-marked towards Sun NXT in FY22, we believe Sun TV will have to significantly improve library content and investment in its OTT platform (ZEE5's quarterly operating cost is ~Rs2.5-2.6bn) given gradual migration in viewing patterns from linear TV to digital.

Ad-revenue to decline by ~25-30% in FY21: While ad-volumes have improved in the GEC & movie genre, ad-revenue is expected to decline by ~25-30% in FY21. In the Tamil genre, where Sun TV is market leader, 2-3 new shows have been launched in Sep/Oct and the viewership share is expected to increase to 46-47% in the near future.

New movie investment pegged at Rs3-4bn: While plans to spend Rs3-4bn for 8 movies to be released in next 12 months is still intact, management highlighted that given the second strain of COVID, there is a likelihood that the time-line may get extended beyond 12 months.

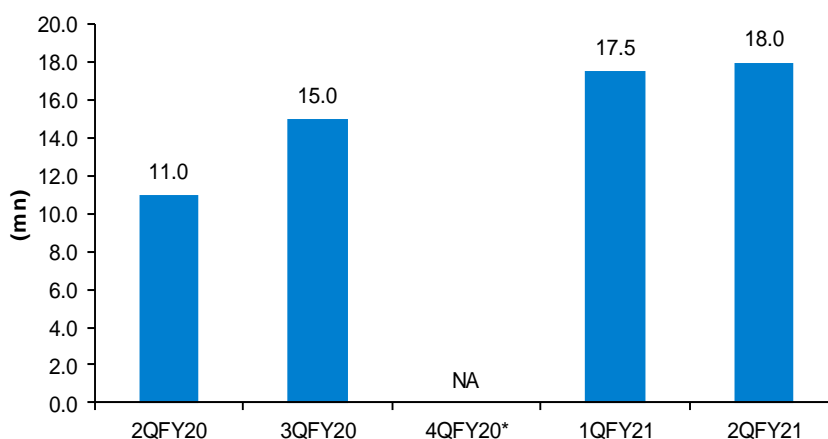
IPL PBT to be at Rs1.2bn/Rs1.3-1.4bn in FY21/FY22: Management hinted that next IPL is most likely to happen in UAE and thus gate receipts of Rs250-260mn can be at risk (lower crowd as compared to India). Further, there is no clarity on title sponsorship for next year's edition. If Dream 11 continues, there can be a dip in sponsorship revenues as it is paying Rs2.2bn annually versus Rs4.4bn paid by VIVO, earlier sponsor. Given these uncertainties, IPL's PBT is expected to be at Rs1.2bn/Rs1.3-1.4bn in FY21/FY22.

Outlook & valuation: Sun TV trades at 13.8x/12.6x FY21/FY22 consensus EPS of Rs35.5/Rs38.9 respectively. We believe re-rating will be a function of improvement in viewership market share and traction in Sun NXT.

Key highlights from our interaction

Grossly underinvested in Sun NXT: Management highlighted plans to spend Rs2bn towards Sun NXT in FY22. Sun NXT has ~18mn subscribers (majority of it are acquired through telco partnerships; organic count is less than 10%). Subscription price is Rs50 per month, while globally the price is ~US\$10. The plan is to offer Sun NXT on SVOD model.

Exhibit 1: Sun NXT has 18mn subscribers in 2QFY21

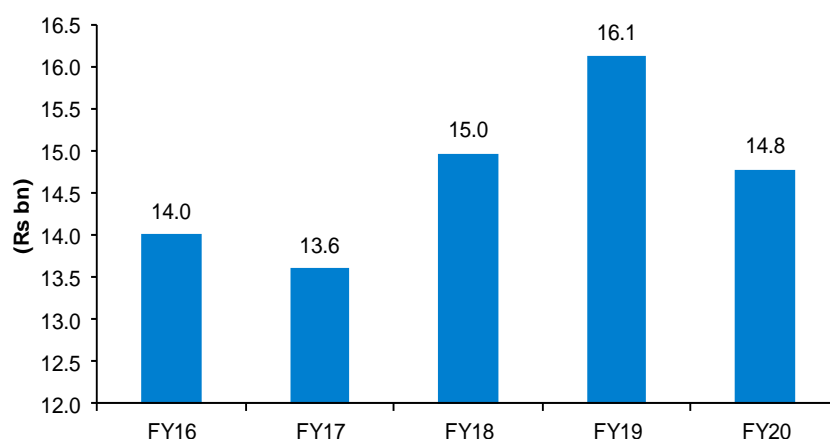


Source: Company, PL

* Figure not available

As compared to annual commitment of Rs2bn for Sun NXT in FY22, ZEE5's quarterly operating cost stood at Rs2.4bn/2.9bn in 1QFY21/2QFY21 respectively, indicating that annual operating cost can be in the range of ~Rs10-11bn (annualizing the 1HFY21 figure). Currently, no web-series is being aired on Sun NXT (only movies are being shown) while ZEE5 has a library of 100+ original shows & movies. We thus believe Sun TV is grossly under-invested in Sun NXT and will have to scale up its library content significantly in the near future.

Ad-revenue to decline by ~25-30% in FY21: While ad-volumes have improved in the GEC & movie genre, ad-revenue is expected to decline by ~25-30% in FY21. In the Tamil genre, where Sun TV is market leader, 2-3 new shows have been launched in Sep/Oct and the viewership share is expected to increase to 46-47% in the near future. In the Malayalam market (relatively smaller in size), lot of fresh content has been introduced in the past with limited success.

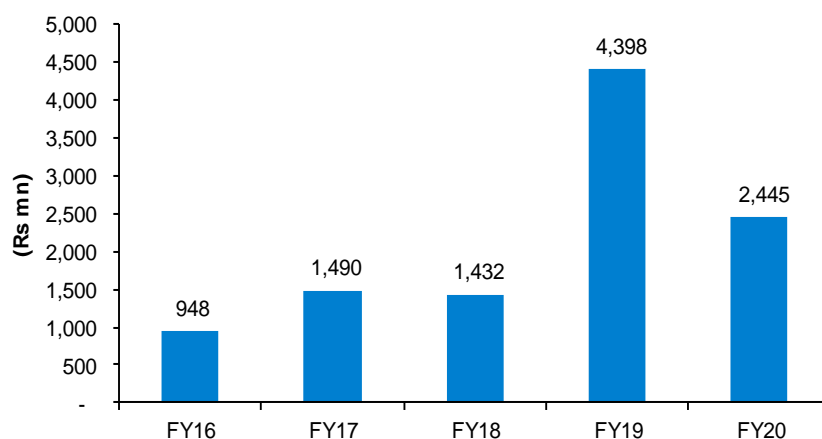
Exhibit 2: Ad-revenue CAGR stood at 1.4% over FY16-FY20


Source: Company, PL

New movie investment pegged at Rs3-4bn: While plans to spend Rs3-4bn for 8 movies to be released in next 12 months is still intact, management highlighted that given the second strain of COVID, there is a likelihood that the time-line may get extended beyond 12 months. The movie satellite rights are fully amortized on the premiere itself and the amortization figure for FY21 is likely to be in the range of Rs3bn.

IPL PBT to be at Rs1.2bn/Rs1.3-1.4bn in FY21/FY22: There is no clarity over title sponsorship for next year's edition. Earlier sponsor VIVO was paying Rs4.4bn, while current sponsor Dream 11 is paying Rs2.2bn annually. If the current sponsor continues, there can be a dip in sponsorship revenues. Further, management hinted that next IPL is most likely to happen in UAE and thus gate receipts of Rs250-260mn can be at risk (lower crowd as compared to India).

Given the uncertainty around title sponsorship and likelihood of IPL happening in UAE, pre-tax profits are expected to be ~Rs1.2bn in FY21 and ~Rs1.3-1.4bn in FY22.

Exhibit 3: IPL revenue stood at Rs2.4bn in FY20


Source: Company, PL

Other highlights

- Promoter salary (Rs875mn in FY20) has been frozen until FY21.
- Sun has gradually migrated to the commission model (owns IP content) from private producer model (sharing airtime with producers). Only 3-4 slots in Tamil and 1-2 slots in Telugu are on private producer model.
- EBITDA margins are likely to be lower once investment in Sun NXT begins.
- Franchise share in broadcast & sponsorship revenue of BCCI is ~45%.
- Star's commitment of ~Rs165bn for 5 years does not result in equal amortization of Rs33bn per year. Thus, there can be marginally higher revenue accretion in balance period (broadcast rights are valid till 2022).

Analyst Coverage Universe

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1	Dish TV India	NR	-	74
2	Entertainment Network (India)	Accumulate	185	146
3	Indian Railway Catering and Tourism Corporation	BUY	1,629	1,380
4	Inox Leisure	BUY	322	267
5	Music Broadcast	Hold	20	21
6	Navneet Education	Accumulate	93	79
7	PVR	Accumulate	1,435	1,255
8	S Chand and Company	BUY	86	65
9	V.I.P. Industries	Accumulate	384	337

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: >15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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