

# 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)

**Jinesh Joshi**

jineshjoshi@plindia.com | 91-22-66322238

## 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 timeline 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.

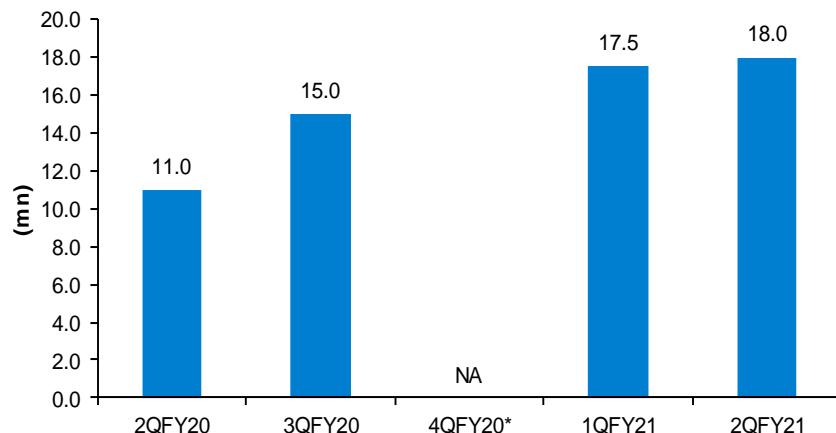
**IPL PBT to be at Rs1.2bn/Rs1.3-1.4bn in FY21/FY22:** Management hinted that next IPL is most likely to happen in UAE and thus gate receipts of Rs250-260mn can be at risk (lower crowd as compared to India). Further, there is no clarity on title sponsorship for next year's edition. If Dream 11 continues, 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**



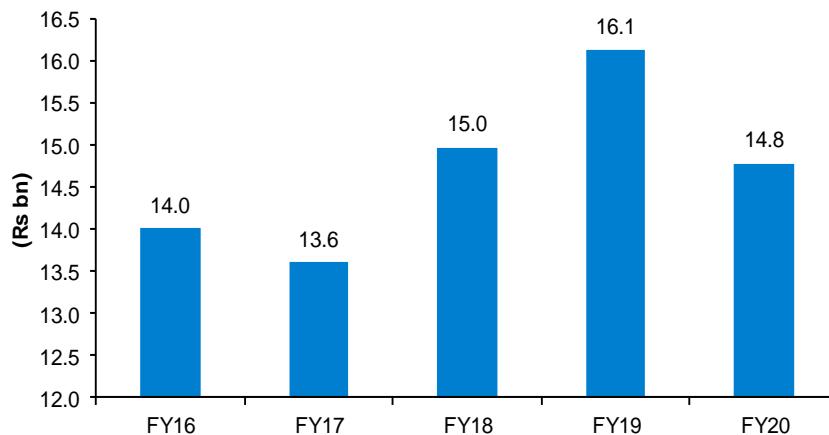
Source: Company, PL

\* 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**



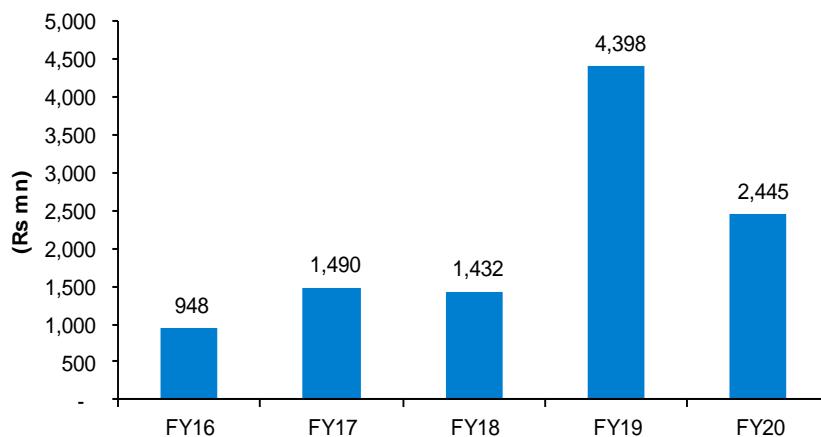
Source: Company, PL

**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**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
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)**

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

## **ANALYST CERTIFICATION**

### **(Indian Clients)**

We/I, Mr. Jinesh Joshi- MS(Finance) and CFA Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

### **(US Clients)**

The research analysts, with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is or will be directly related to the specific recommendation or views expressed in this research report.

## **DISCLAIMER**

### **Indian Clients**

Prabhudas Lilladher Pvt. Ltd, Mumbai, India (hereinafter referred to as "PL") is engaged in the business of Stock Broking, Portfolio Manager, Depository Participant and distribution for third party financial products. PL is a subsidiary of Prabhudas Lilladher Advisory Services Pvt Ltd. which has its various subsidiaries engaged in business of commodity broking, investment banking, financial services (margin funding) and distribution of third party financial/other products, details in respect of which are available at [www.plindia.com](http://www.plindia.com).

This document has been prepared by the Research Division of PL and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accepts any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

PL may from time to time solicit or perform investment banking or other services for any company mentioned in this document.

PL is in the process of applying for certificate of registration as Research Analyst under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

PL submits that no material disciplinary action has been taken on us by any Regulatory Authority impacting Equity Research Analysis activities.

PL or its research analysts or its associates or his relatives do not have any financial interest in the subject company.

PL or its research analysts or its associates or his relatives do not have actual/beneficial ownership of one per cent or more securities of the subject company at the end of the month immediately preceding the date of publication of the research report.

PL or its research analysts or its associates or his relatives do not have any material conflict of interest at the time of publication of the research report.

PL or its associates might have received compensation from the subject company in the past twelve months.

PL or its associates might have managed or co-managed public offering of securities for the subject company in the past twelve months or mandated by the subject company for any other assignment in the past twelve months.

PL or its associates might have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months.

PL or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months

PL or its associates might have received any compensation or other benefits from the subject company or third party in connection with the research report.

PL encourages independence in research report preparation and strives to minimize conflict in preparation of research report. PL or its analysts did not receive any compensation or other benefits from the subject Company or third party in connection with the preparation of the research report. PL or its Research Analysts do not have any material conflict of interest at the time of publication of this report.

It is confirmed that Mr. Jinesh Joshi- MS(Finance) and CFA Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

The Research analysts for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

The research analysts for this report has not served as an officer, director or employee of the subject company PL or its research analysts have not engaged in market making activity for the subject company

Our sales people, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

PL and its associates, their directors and employees may (a) from time to time, have a long or short position in, and buy or sell the securities of the subject company or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company or act as an advisor or lender/borrower to the subject company or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

### **US Clients**

This research report is a product of Prabhudas Lilladher Pvt. Ltd., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Prabhudas Lilladher Pvt. Ltd. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Prabhudas Lilladher Pvt. Ltd. has entered into an agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo").

Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer.

---

## **Prabhudas Lilladher Pvt. Ltd.**

**3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209**

[www.plindia.com](http://www.plindia.com)