

# [Dish tv company analysis and breakdown recommendation hold](https://assignbuster.com/dish-tv-company-analysis-and-breakdown-recommendation-hold/)

Dish TV (part of broadcasting giant Zee group) is a pioneer and leader in the high growth Direct-to-Home (DTH) industry in India with 33% subscriber market share. It remains well positioned to capitalize on increased digitalization of traditional cable markets with its first mover advantage and integrated offerings.

## Key Stock Data

Sector

Broadcasting and Cable TV

NSE Code

DISHTV

BSE Code

532839

Number of Shares

1, 063 mn

Face Value

Re 1

Market Capitalization

Rs 2, 171 bl

52 Weel H/L

Rs 54. 10/Rs. 31. 85

## Shareholding Pattern

## %

Promoters

64. 8

FIs and Local MFs

5. 8

FIIs

5. 6

Public and Others

23. 8

fdafdsfa

asdfsdf

sdfasdfsdfasdfsdf

## DCF summary (INR mn)

Total Discounted value

8, 816

Terminal value

41, 311

Enterprise value

50, 127

Debt

8, 971

Cash

5, 217

Net Debt

3, 754

Total shareholders’ value

46, 373

No of shares (mn)

1, 063

Present fair value (INR)

43. 6

CMP (INR)

44. 4

Upside (%)

-1. 75%

## Environment Overview

## India’s M&E spends among the lowest globally

In comparison to global peers, the spending on media and entertainment in India remains low, providing scope for its increase. AS the media spend per capita and as a percentage of GDP increases, the earning of this industry are only going to increase. (Source: NRS 2006, India Broadcasting Industry Presentation)

Figure 1: Media Spend as % of GDP Figure 2: Media Spend per Capita (US$)

## TV household penetration: room for growth

Figure 3: Household TV PenetrationPenetration of TV households in India remains well below that of global peers in both developed and emerging markets. A rise in per capita GDP is spawning a rapidly growing middle class which, with greater purchasing power, is influencing consumer markets. Shopping patterns of consumers are also shifting. An estimate of the Cable and Satellite TV penetration in India is shown below. As expected, the share of DTH and is going to increase only. (Source: MPA Report 2009, Dish TV presentation)

## (in mn)

## CY04

## CY05

## CY06

## CY07

## CY08

## CY09E

## CY10E

## CY11E

## CY12E

## CY13E

## CAGR (%)

## Households (HH)

209

215

220

225

229

233

236

239

241

243

1. 1

## TV HHs

103

110

116

122

129

136

142

148

152

155

3. 3

% of HHs

49. 3

51. 2

52. 7

54. 2

56. 3

58. 4

60. 2

61. 9

63. 1

63. 8

## Pay TV HHs

57

65

72

82

94

105

115

124

131

137

6. 9

% of TV HHs

55. 3

59. 1

62. 1

67. 2

72. 9

77. 2

81

83. 8

86. 2

88. 4

## DTH HHs

## –

## –

1

4

12

19

30

38

45

52

27. 2

% of TV HHs

## –

## –

1

3

9

13

17

20

22

24

## Digital Cable + IPTV

## –

## –

0

1

2

6

11

16

22

29

50. 2

% of TV HHs

## –

## –

0. 1

0. 7

1. 8

2. 6

3. 8

5. 4

7. 2

9. 3

## Analogue Cable

57

65

71

78

80

81

75

70

64

56

-8. 3

% of TV HHs

55. 3

59. 1

60. 9

63. 5

62. 1

61. 6

60. 2

58. 4

56. 9

55. 1

Digital distribution – key driver

Greater availability of channels with better viewing experience

Demands for improved service quality

Mandated roll-out of digital cable services

Over the last two years, the confluence of several factors has led to a steady migration towards digital distribution in India. The number of digital subscribers (DTH plus digital cable) has zoomed from an estimated 5mn at the end of FY08 to 21mn in FY10. By FY12, India is expected to have ~40mn DTH subscribers, representing 32% of all C&S households. Outlined below are the chief factors promoting the switch to digital subscription –

Figure 2: Number of Channels in India (Source: Dish TV presentation)

## Industry overview

## Aggressive marketing and subsidies for set top boxes

In 2008, the DTH industry witnessed the entry of three large players in the span of less than a year – Sun Direct TV, Big TV and Airtel Digital TV. Consequently, DTH now accounts for ~15% of C&S households. Industry is expected to add 8-10mn subscribers every year between FY09-FY12 due to aggressive marketing efforts of all players, which would be further boosted by forthcoming sporting events like a busy cricket calendar and the Commonwealth Games.

## Too Many DTH Players?

There are roughly around 1. 1 crore DTH subscribers in India as of now, this market will most likely go up over 3 Crore subscribers by 2012. This means that the DTH market is only going to grow from here on. There is no saturation in hindsight and amongst the foray of new features, new providers, new untapped markets being opened up as well as new standards being set in the industry. DTH is here to stay.

## Competition

The main competitors for Dish TV are Airtel Digital TV, Tata Sky, Sun Direct TV and Reliance Big TV. Since all of these DTH services are part of larger business entities, it is very difficult to get financial numbers for standalone DTH services. However, there is some information available about Tata Sky and Sun Direct TV, which gives an idea about the industry trends. Essentially, the DTH companies are taking huge costs upon themselves in acquiring new customers. This shows that as long as companies try to acquire new customers, the nature of the competition is so that it forces them to take losses. Analysis shows one clear trend among the DTH subscribers, as long as a company tries to acquire new customers, it puts a dent in the profits. In this situation, Dish TV is uniquely positioned because it already has a large subscriber base to cushion the negative effects of adding new customers.

## Company Analysis

## SWOT ANALYSIS

## Strengths

First entrant in the DTH market, has a substantial market share

Presence across almost all geographies of India

Customer friendly multi-tiered regional packages

Diversified content

Part of Zee group – the broadcasting giant

## Weakness

High Subscriber Acquisition Cost (SAC)

Low ARPU, which is an area of concern

## Opportunities

India’s 127 million TV households

Conditional Access System (CAS) rollout by the Govt., which will trigger consumers to make decision between Cable and DTH

Turning Value Added Services into revenue generating stream

## Threats

DTH is currently a 5 player market

Competition can cut revenues by forcing price-cuts and reduced margins

Improved quality by cable operators and IPTV

Customer churn rate may negatively impact bottom line – constant attention and strategy needed to manage and control subscriber base

## Dish TV on Porter’s five forces

Bargaining power of suppliers – Moderate: With increasing volumes, the bargaining power of Indian DTH players with customer premise equipment (CPE) suppliers have been steadily increasing.

Threat of new entrants – Low: Market is already crowded with six players.

Bargaining power of buyers – High: Alternate mediums (Cable, DTH, IPTV) and increasing competition among DTH provides an upper hand to the end consumers.

Threat from substitutes – High: DTH faces stiff competition from the terrestrial, cable and IPTV services.

Inter firm rivalry – High: Intense rivalry is exhibited by price wars and discount schemes offered to new connections.

## Investment Rationale

ARPU breaks declining trend, up 2% QoQ at Rs 138: Going forward, as the company keeps on building its subscriber base, new customers as percentage of total subscribers would keep declining, resulting in an ARPU growth, starting FY11E. As per the last investor presentation, the company expects a 9% growth in ARPU for FY11E on account of the rising proportion of old subscribers in the overall subscriber base.

Topline performs in line, posts 47% growth for FY10: Dish TV reported 9% and 46% growth in topline for Q4FY10 on a QoQ and YoY basis respectively. Topline for FY10 has crossed INR10bn mark, posting a 47% growth on a YoY basis. Going forward, the management plans to add 2-2. 5mn subscribers for FY11E- FY12E period. Based on the current run rate, Dish TV is expected to register a 32% CAGR in revenues during FY10-FY12E driven by 11% growth in ARPU and 21% growth in subscriber base.

EBITDA margin up at 11. 5% on low ad, content costs: The Company posted a smart upturn in the EBITDA margin at 11. 5% versus 4. 6% for Q3FY10. The EBITDA margin improvement was driven by savings from advertisement and content costs. Cost savings on the ad expense front were due to a low ad spend during the IPL season, which would rise going forward as competitive intensity in the space has not declined.

Source for all data: Company Reports

## DCF Valuation

The DCF valuation table with a WACC of 12% is given on the first page. With this analysis (with financial estimates given in appendix), the company is expected to generate positive cash flows from the year 2013. We assume the same trend to continue till 2020 and take the year 2020 for the terminal value of the cash flows.

## Rs million

## FY08

## FY09

## FY10

## FY11E

## FY12E

## FY13E

## Revenues

4, 128

7, 381

10, 846

14, 573

17, 601

21, 281

## Growth (%)

115. 4

78. 8

46. 9

34. 4

20. 8

20. 9

## EBITDA

-2, 084

-1, 233

839

2, 391

3, 524

5, 240

## Growth (%)

-22. 2

40. 8

## –

184. 9

47. 4

48. 7

## EBITDA Margin

-50. 5

-16. 7

7. 7

16. 4

20

24. 6

## Adj. Net Profit

-4, 141

-4, 807

-2, 617

-2, 055

-1, 002

735

## EPS (Rs)

-9. 7

-5. 1

-2. 5

-1. 9

-0. 9

0. 7

## P/E (x)

## –

## –

## –

## –

## –

59. 3

## EV/EBITDA (x)

-23. 3

-44

55. 3

21. 3

14. 4

9. 5

## ROE (%)

-967. 1

-246

-26. 3

-12. 5

-6. 1

4. 5

DCF Analysis gives the value of share at Rs 43. 6, which is very near to current market price. Considering the potential upside of the industry and the company, we can hold the stock for higher returns in medium term (12-18 months) (Source – Self Research and Company Data)