



Rating
Buy

Asia
India

Media
Broadcasting / Movie &
Entertainment

Company
Dish TV

Reuters DSTV.BO Bloomberg DITV.IN Exchange BSE Ticker DSTV

Date
27 May 2015

Forecast Change

Price at 26 May 2015 (INR)	97.65
Price target - 12mth (INR)	105.00
52-week range (INR)	97.65 - 51.15
Bombay Stock Exchange (BSE 30)	27,644

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Back to the good old days of operating leverage

Low inflation in content cost provides visibility on strong earnings growth. During FY10-12, Dish TV's EBITDA grew 4.2x as the company doubled its number of subscribers and entered into fixed content cost deals with the broadcasters. We believe operating leverage will play out for Dish again as its content costs are now largely fixed, at least for the next 1.5 years (with 5-6% annual increase), and it aggressively adds subscribers. EBITDA growth of 72% in 4QFY15 (22% ahead of estimates) is a testimony. Continuing strong subscriber addition and an ARPU increase of INR 10 (4%) in May 2015 will be strong near-term catalysts.

Fixed content cost deals resulted in a big beat in earnings. Dish TV reported sales/EBITDA growth of +19%/+72% (+2%/+22% vs. our est.). Strong customer addition of 405k net subscribers (vs. our 180k est.) and flat content cost were key drivers for the beat. If one stripped off the impact of activation revenue (accounting change done in Q4FY14), EBITDA growth would still have been 72%. Dish TV has content cost fixed for at least the next 20 months (management guiding for 5-6% annual inflation). The Star and Zee content-cost deal expires September 2016, India Cast in March 2017, and Sony in March 2018. While fixed content costs will drive earnings growth over the next six quarters, ARPU increases will drive long-term earnings growth. Cost pass-through for cable (broadcasters push) gives DTH players headroom to raise prices (see Figure 2 for ARPU trend). Dish also implemented differential pricing for metros, which is working well, but it may have to roll back the price increase if peers do not follow; otherwise, subscriber addition may be affected.

DTH seems to be benefitting from a delay in digitization Phase 3 and 4. Despite 1.3mn gross subscriber additions in 2HFY15, Dish is still gaining 28% incremental market share. It seems that the DTH companies are probably gaining market share in Phase 3 and 4 areas.

Maintaining Buy; revising target price to INR105 (up 25%). We have increased our earnings estimates (19-21%) and target price to factor in strong customer addition of 1.4mn in FY16/17 (vs. 1.2mn earlier) and lower content cost increase of 8/10% in FY16/17 (vs. 12% earlier). Our estimates are below management guidance of 5-6% content cost increase and 1.4-1.7mn net subscriber adds in FY16. Our target of 11x September 2016 EV/EBITDA is intact. Key risk: slower-than-expected growth in ARPU.

Key changes			
Price target	84.00 to 105.00	↑	25.0%
Sales (FYE)	27,145 to 27,818	↑	2.5%
Op prof margin (FYE)	1.2 to 4.2	↑	256.3%
Net profit (FYE)	-272.6 to 37.3	↑	-113.7%

Source: Deutsche Bank

Price/price relative



Performance (%)	1m	3m	12m
Absolute	28.5	23.6	84.9
Bombay Stock Exchange (BSE 30)	0.8	-3.8	11.8

Source: Deutsche Bank

Forecasts And Ratios

Year End Mar 31	2013A	2014A	2015E	2016E	2017E
Sales (INRm)	21,668.0	25,089.8	27,818.2	31,887.9	37,032.6
EBITDA (INRm)	5,795.2	6,261.3	7,296.7	9,391.0	11,795.1
DB EPS FD(INR)	-1.18	-0.36	0.04	3.26	5.47
OLD DB EPS FD(INR)	-1.18	-0.36	-0.26	2.71	4.61
% Change	-0.0%	-0.0%	-113.7%	20.5%	18.7%

Source: Deutsche Bank estimates, company data

¹ DB EPS is fully diluted and excludes non-recurring items

² Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

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