

COMPANY

UPDATE

UFO Moviez India Ltd.

Geared for uptick in 'in-cinema' advertisement growth in FY18

BUY

Nifty: 8,349; Sensex: 27,035

CMP	Rs407
Target Price	Rs690
Potential Upside/Downside	+70%

Key Stock Data

Sector	Media
Bloomberg	UFOM IN
Shares o/s (mn)	27.6
Market cap. (Rsmn)	11,225
Market cap. (US\$ mn)	165

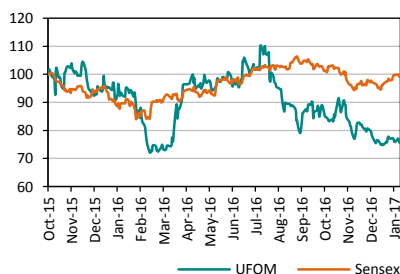
Price Performance

52-week high/low	Rs625/380		
	-1m	-3m	-12m
Absolute (%)	0	(9)	(20)
Rel to Sensex (%)	(3)	(5)	(32)

Shareholding Pattern (%)

Promoters	28.9
Institutions	45.0
Non-Institutions	26.1

Relative to Sensex



- We believe that the impact of demonetisation on UFO Moviez's 'in-cinema' advertisement revenue would ease in Q4FY17. Given the strong movie slate, we expect up-tick in the growth in FY18 lead by growth in both Government and corporate segment driving a 29.2% YoY growth in 'in-cinema' advertisement. We forecast growth to sustain in FY19 (+31.2% YoY).
- We now forecast Caravan business to achieve EBITDA breakeven in FY19E. We await management's outlook on this business.
- We factor relatively slower advertisement growth and cut our FY17E/18E revenue by 3.6%/6.4%. As a result, we cut our FY17/18E EBITDA and EPS by 8.3%/11.6% and 16.3%/16% respectively. We believe that our forecast has upside triggers from faster ramp-up in advertisement growth.
- We maintain that UFO Moviez has significant re-rating opportunity on the back of - 1) healthy earnings growth (we still forecast FY16-19E CAGR of 14%), 2) improving RoE (18% from FY18E onwards up from 13% in FY16), 3) FCF yield of 7.3%/9.6% in FY17/18E and 4) net cash B/S. We maintain BUY on UFO Moviez with new TP of Rs690 based on EV/EBITDA of 9x FY18F.

Key Highlights and Investment Rationale

■ What do we forecast for Q3FY17?

We forecast advertisement revenue to see a modest growth of 1.9% YoY impacted by demonetisation. We forecast in-cinema advertisement revenue to grow by 3.7% YoY lead by, a 7% YoY growth in the government segment. We expect Caravan business to be impacted more. Further, due to decline in VPF revenue and hardware sales, we forecast over-call revenue to decline by 3.3% YoY to Rs1,397mn. We forecast EBITDA to remain unchanged at Rs440mn (EBITDA margin of 31.5%, +90bps QoQ). Due to the increase in depreciation YoY, we forecast EPS to decline by 16.4% to Rs5.2.

■ Expect In-cinema advertisement revenue to see an uptick in FY18

We expect strong movie slate (bollywood and regional), pick-up in corporate segment and full year benefit of local advertisement to drive growth. We now forecast advertisement revenue to grow at a CAGR of 27.8% over FY16-19E vs. 35% earlier. This includes -430bps impact from the Caravan business (we now forecast FY19 revenue of Rs163mn vs. Rs506mn earlier).

■ Forecast FY16-19E EPS CAGR of 14%; upside triggers from faster pick-up in ad revenue

We factor lower advertisement revenue and cut our FY17E/18E/19E revenue by 3.6%/6.4%/7.9%. We also cut our EBITDA forecast by 8.3%/11.6%/14.9% and EPS forecast by 16.3%/16%/19.3%. Despite this sharp cut, we forecast EPS to grow at a CAGR of 14% over FY16-19E. **We believe that our forecast is conservative and has upside triggers from faster ramp-up in advertisement revenue.**

■ Would watch out for commentary on the Caravan business

As mentioned above, the cut in our forecast for the Caravan business forms a major part of our change on forecast for UFO Moviez. The company had guided for cash-breakeven in H2FY17 for this segment. We would watch out for any change in the guidance.

■ CMP offers deep value and ignores the quality of earnings growth

Even after the cut in our forecast, we expect UFO Moviez to generate FCF of Rs3.1bn over FY17-19E. At CMP, even the FY17E FCF yield is at 7.3% and FY18E FCF yield is 9.6% which we believe is extremely attractive. Further, we still forecast RoE to improve to 17.7% in FY18E vs. 13.3% in FY16. Thus we believe, that the stock has significant re-rating potential and maintain our target EV/EBITDA of 9x FY18E. We maintain **BUY** with new TP of Rs690.

Table: Financial snapshot

Year	Revenue	EBITDA	EBITDA (%)	Adj. PAT	EPS (Rs)	P/E (x)	EV/EBITDA (x)	RoE (%)	RoCE (%)
FY16	5,701	1,819	31.9	626	22.8	17.9	6.2	13.2	16.4
FY17E	5,863	1,881	32.1	644	23.3	17.4	5.7	13.6	17.5
FY18E	6,174	2,072	33.6	828	30.0	13.6	4.9	17.7	21.8
FY19E	6,656	2,255	33.9	941	34.1	11.9	4.2	18.3	22.4

Source: Company; IDBI Capital Research

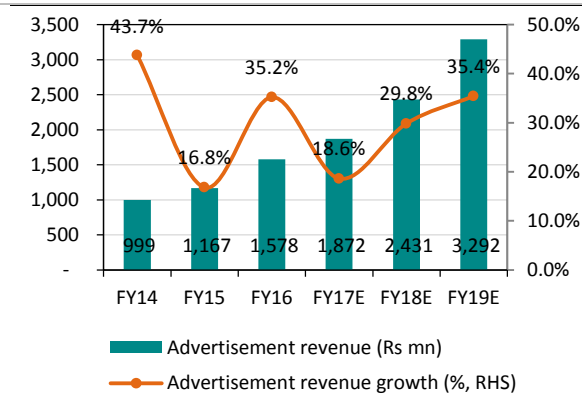
Table: Change in forecast

(Rs mn)

Year to March	FY17E			FY18E			FY19E		
	Revised	Previous	Change (%)	Revised	Previous	Change (%)	Revised	Previous	Change (%)
Revenue (Rs mn)	5,863	6,079	(3.6)	6,174	6,594	(6.4)	6,656	7,229	(7.9)
EBITDA (Rs mn)	1,881	2,052	(8.3)	2,072	2,343	(11.6)	2,255	2,651	(14.9)
EBITDA margin (%)	32.1	33.8%	(47)bps	33.6	35.5	(147)bps	33.9	36.7	(147)bps
EPS (Rs)	23.3	27.9	(16.3)	30.0	35.7	(16.0)	34.1	42.2	(19.3)

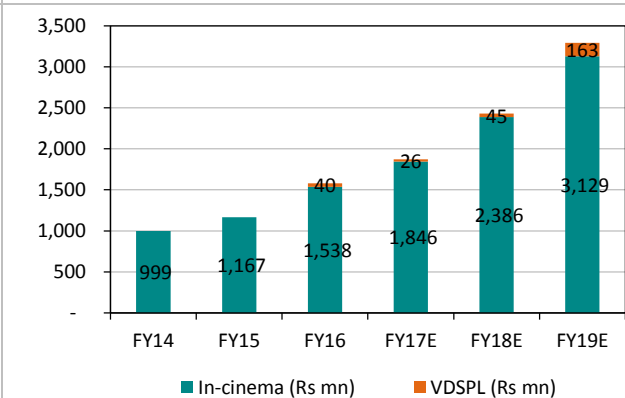
Source: IDBI Capital Research

Figure: Advertisement revenue trend



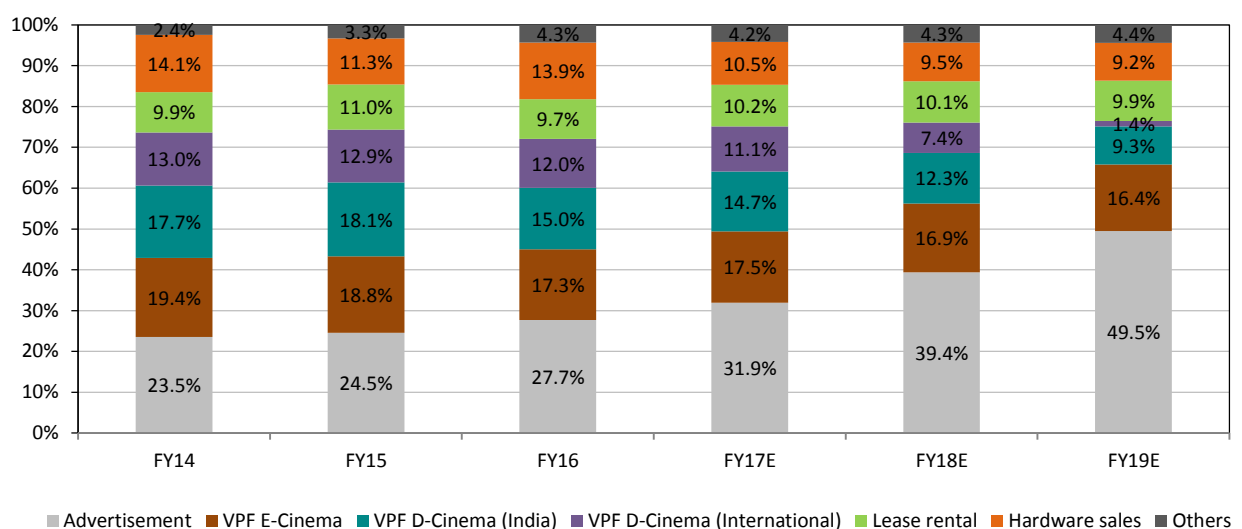
Source: Company; IDBI Capital Research

Figure: Advertisement revenue mix trend



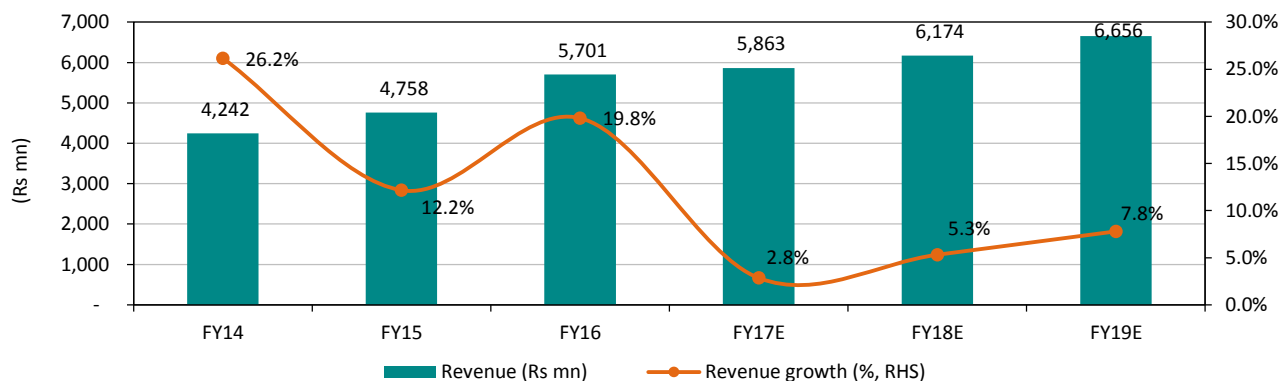
Source: Company; IDBI Capital Research

Figure: Revenue mix trend



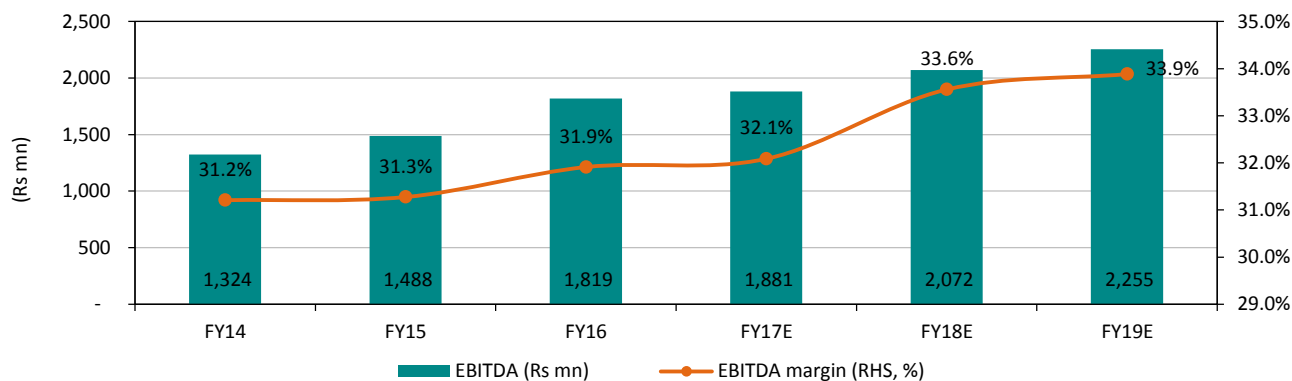
Source: Company; IDBI Capital Research

Figure: Revenue growth trend growth



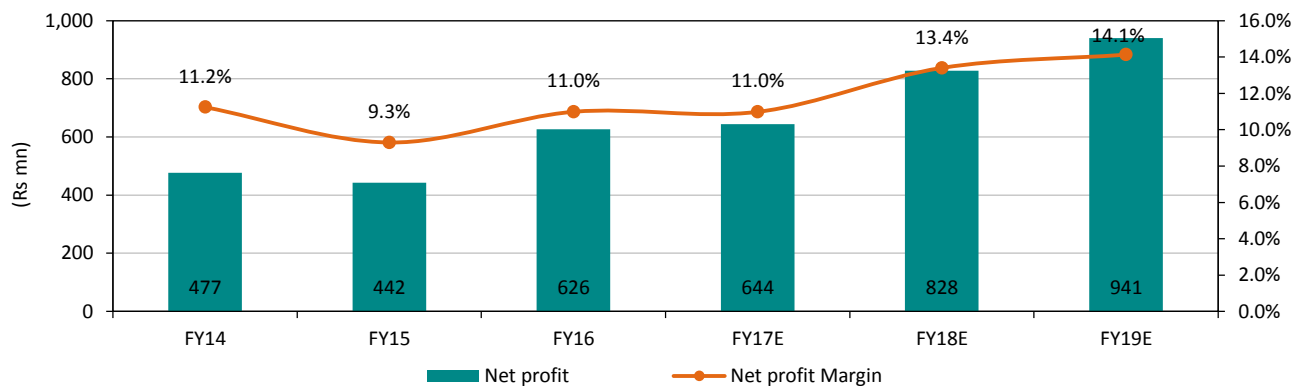
Source: Company; IDBI Capital Research

Figure: EBITDA margin trend



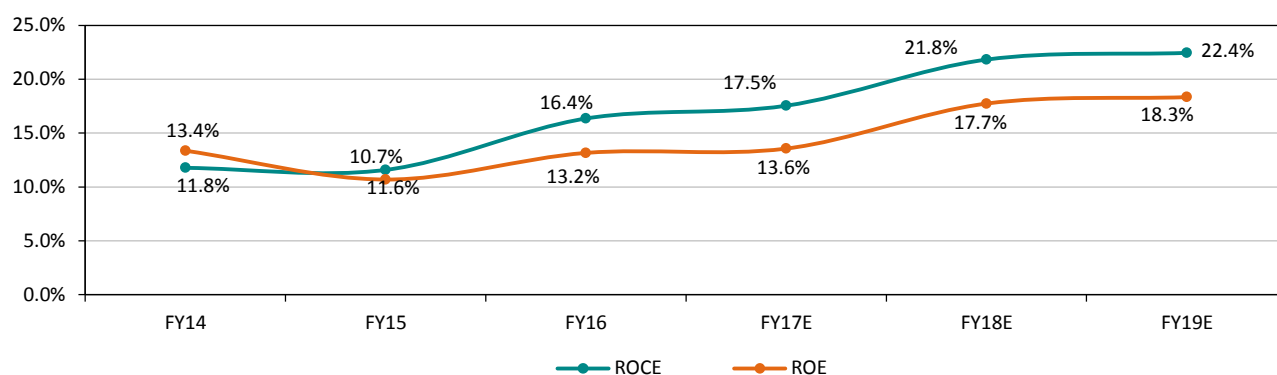
Source: Company; IDBI Capital Research

Figure: Net profit margin trend



Source: Company; IDBI Capital Research

Figure: ROCE and ROE trend



Source: Company; IDBI Capital Research

■ FCF of Rs3.1bn over FY17-19E

For UFO Moviez, the peak CAPEX is behind and it has already started generating FCF. We maintain our forecast for CAPEX of ~Rs600mn for FY17/18. On the back of the cut in our forecast for the Caravan business we cut FY19 CAPEX to Rs600mn vs. Rs800mn earlier. We forecast it to generate FCF of Rs3.1bn over the next three years. This would **provide the company with multiple opportunities to return the cash to its shareholders.**

Table: UFO Moviez has a strong FCF profile

(Rs mn)

Year-end: March	FY14	FY15	FY16	FY17E	FY18E	FY19E
Pre-tax profit	513	603	972	1,030	1,251	1,447
Depreciation	572	758	792	831	840	890
Tax paid	(99)	(240)	(428)	(420)	(448)	(506)
Chg in working capital	(29)	65	(141)	10	(41)	(64)
Cash flow from operations	957	1,185	1,195	1,452	1,602	1,766
Capital expenditure	(1,334)	(616)	(680)	(629)	(519)	(600)
Chg in investments	(35)	(6)	(19)	0	0	0
Free Cash Flow	(412)	563	496	822	1,084	1,166
FCF Yield	(3.7)%	5.0%	4.4%	7.3%	9.6%	10.4%

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY16	FY17E	FY18E	FY19E
Net sales	5,701	5,863	6,174	6,656
<i>Growth (%)</i>	19.8	2.8	5.3	7.8
Operating expenses	(3,881)	(3,982)	(4,102)	(4,400)
EBITDA	1,819	1,881	2,072	2,255
<i>Growth (%)</i>	22.2	3.4	10.1	8.8
Depreciation	(774)	(831)	(840)	(890)
EBIT	1,045	1,050	1,232	1,366
Interest paid	(140)	(101)	(77)	(77)
Other income	67	81	97	158
Pre-tax profit	972	1,030	1,251	1,447
Tax	(346)	(420)	(448)	(506)
<i>Effective tax rate (%)</i>	35.6	40.8	35.8	35.0
Net profit	626	610	803	941
Adjusted net profit	626	644	828	941
<i>Growth (%)</i>	41.6	2.8	28.5	13.7
<i>Shares o/s (mn nos)</i>	27	28	28	28

Balance Sheet

(Rs mn)

Year-end: March	FY16	FY17E	FY18E	FY19E
Net fixed assets	4,712	3,510	3,188	2,898
Investments	80	80	80	80
Other non-curr assets	482	498	524	565
Current assets	2,935	3,121	3,915	4,784
Inventories	115	120	127	137
Sundry Debtors	1,515	1,558	1,641	1,769
Cash and Bank	948	1,073	1,758	2,460
Loans and advances	290	305	321	346
Total assets	8,209	7,209	7,707	8,328
Shareholders' funds	5,165	4,511	4,940	5,416
Share capital	275	276	276	276
Reserves & surplus	4,890	4,235	4,664	5,140
Total Debt	1,040	640	640	640
Secured loans	1,040	640	640	640
Unsecured loans	-	-	-	-
Other liabilities	219	219	219	219
CurrLiab & prov	1,679	145	1,861	2,006
Current liabilities	1,534	.	1,709	1,842
Provisions	146	145	152	164
Total liabilities	2,938	2,625	2,719	2,864
Total equity & liabilities	8,209	7,209	7,707	8,328
Book Value (Rs)	188	163	179	196

Source: Company; IDBI Capital Research

Cash Flow Statement

(Rs mn)

Year-end: March	FY16	FY17E	FY18E	FY19E
Pre-tax profit	972	1,030	1,251	1,447
Depreciation	792	831	840	890
Tax paid	(428)	(420)	(448)	(506)
Chg in working capital	(239)	24	(12)	(18)
Other operating activities	99	(14)	(30)	(46)
Cash flow from operations (a)	1,195	1,452	1,602	1,766
Capital expenditure	(661)	(629)	(519)	(600)
Chg in investments	(19)	-	-	-
Other investing activities	-	-	-	-
Cash flow from investing (b)	(680)	(629)	(519)	(600)
Equity raised/(repaid)	249	1	-	-
Debt raised/(repaid)	(228)	(400)	-	-
Dividend (incl. tax)	(265)	(299)	(398)	(465)
Chg in minorities	33	-	-	-
Other financing activities	-	-	-	-
Cash flow from financing (c)	(211)	(698)	(398)	(465)
Net chg in cash (a+b+c)	304	124	685	701

Financial Ratios

Year-end: March	FY16	FY17E	FY18E	FY19E
Adj EPS (Rs)	22.8	23.3	30.0	34.1
Adj EPS growth (%)	33.3	2.4	28.5	13.7
EBITDA margin (%)	31.9	32.1	33.6	33.9
Pre-tax margin (%)	17.1	17.6	20.3	21.7
ROE (%)	13.2	13.6	17.7	18.3
ROCE (%)	16.4	17.5	21.8	22.4
Turnover & Leverage ratios (x)				
Asset turnover (x)	0.7	0.8	0.8	0.8
Leverage factor (x)	1.7	1.6	1.6	1.6
Net margin (%)	11.0	11.0	13.4	14.1
Net Debt / Equity (x)	0.0	(0.1)	(0.2)	(0.3)
Working Capital & Liquidity ratio				
Inventory days	7	8	8	8
Receivable days	97	97	97	97
Payable days	85	84	86	86

Valuation

Year-end: March	FY16	FY17E	FY18E	FY19E
P/E (x)	17.9	17.4	13.6	11.9
Price / Book value (x)	2.2	2.5	2.3	2.1
PCE (x)	8.0	7.6	6.7	6.1
EV / Net sales (x)	2.0	1.8	1.6	1.4
EV / EBITDA (x)	6.2	5.7	4.9	4.2
Dividend Yield (%)	2.0	2.2	2.9	3.4



Notes

Dealing	(91-22) 6637 1150	dealing@idbicapital.com
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Key to Ratings**Stocks:**

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto ±5%; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

IDBI Capital Markets & Securities Ltd. (Formerly known as "IDBI Capital Market Services Ltd.")

Equity Research Desk

3rd Floor, Mafatlal Centre, Nariman Point, Mumbai – 400 021. Phones: (91-22) 4322 1212; Fax: (91-22) 2285 0785; Email: info@idbicapital.com

SEBI Registration: BSE & NSE (Cash & FO) – INZ000007237, NSDL – IN-DP-NSDL-12-96, Research – INH000002459, CIN – U65990MH1993GOI075578

Compliance Officer: Christina D'souza; Email: compliance@idbicapital.com; Telephone: (91-22) 4322 1212

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