

UFO MOVIEZ INDIA

MEDIA

Ad revenue shines

UFO Moviez' (UFOM) Q2FY17 ad revenue grew ~50% YoY, driven by healthy ad spends across government (up 94%) and private/corporates (up 15% YoY). Ad revenue growth was driven by ~36% growth in ad volume (5.15 ad minutes/screen/show); ad realization improved ~13% YoY given benefits of differential pricing (based on movie content) for corporates, while government ad realization was stable YoY (DAVP realization). The management maintained its FY17 ad growth guidance at >30%, as H1FY17 ad revenue grew 29% YoY.

We expect UFOM to be the major beneficiary of ramp-up in 'in-screen' ad spends given (a) its successful strategy to aggregate ad inventory of single screens and (b) advanced technology offering more transparency and comfort to advertisers. Maintain **BUY with TP of Rs 730 (8x FY18E EV/EBITDA)**.

BUY

Target Price: Rs 730

CMP : Rs 479
Potential Upside : 52%

MARKET DATA

No. of Shares : 28 mn
Free Float : 71%
Market Cap : Rs 13 bn
52-week High / Low : Rs 625 / Rs 380
Avg. Daily vol. (6mth) : 80,465 shares
Bloomberg Code : UFOM IB Equity
Promoters Holding : 29%
FII / DII : 22% / 22%

Key highlights

- ◆ Q2 consolidated revenue grew 7% YoY to Rs 1.6 bn – VPF revenue (43% revenue contribution) grew 6% YoY, lease rentals grew ~9% YoY (9% contribution), while product sales (11% contribution) declined 40% YoY on lower equipment sales; lamp sales were steady
- ◆ EBITDA margin expanded to 34.5% (vs. 30.3% in Q2FY16) on operating leverage benefits with strong ad growth; ad revenue sharing declined to 27.4% of ad revenue in Q2 (~33% in Q2FY16). While PBT grew 37% YoY, PAT grew 23% YoY to Rs 203 mn due to higher tax outgo (double taxation on dividend from subsidiaries) in the quarter
- ◆ Due to monsoon, UFOM's Caravan vans were not operational (PBT loss of Rs 39 mn); Ex-Caravan, revenue grew 7% YoY, EBITDA grew 22% YoY (EBITDA margin at 36%), while PAT grew 34% YoY to Rs 242 mn in Q2
- ◆ The company opened its first franchise property under 'Nova Cinema' (asset-light business model) in Punjab; It plans to add 20 more such pilot screens (planned capex of Rs 150 mn) over the next 4-6 quarters

Financial summary (Consolidated)

Y/E March	FY15	FY16	FY17E	FY18E
Sales (Rs mn)	4,772	5,655	6,001	6,576
Adj PAT (Rs mn)	488	635	797	999
Con. EPS* (Rs.)	-	-	28.0	33.8
EPS (Rs.)	18.8	23.1	28.0	35.2
Change YOY (%)	2.5	22.5	21.5	25.3
P/E (x)	25.4	20.8	17.1	13.6
RoE (%)	11.4	13.1	14.8	16.8
RoCE (%)	15.7	18.8	20.8	24.5
EV/EBITDA (x)	8.2	6.9	5.9	4.9
DPS	-	8.0	8.4	10.5

Source: *Consensus broker estimates, Company, Axis Capital

Key drivers

	FY16	FY17E	FY18E
Ad revenue growth (%)	35.2	32.4	32.8
Ad min sold per show	4.15	5.30	6.40
Spot realization (Rs/ min)	71	74	82
VPF revenue growth (%)	6	(4)	(12)

Price performance

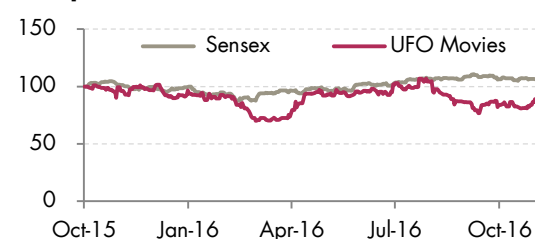


Exhibit 1: Results update

(Rs mn)	Quarter ended					12 months ended		
	Sep-16	Sep-15	% Chg	Jun-16	% Chg	FY17E	FY16	% Chg
Net sales	1,592	1,483	7.4	1,340	18.8	6,001	5,655	6.1
EBITDA	549	449	22.5	358	53.5	2,097	1,848	13.5
Other income	17	25	(30.9)	28	(39.7)	52	47	10.0
PBIDT	566	473	19.7	386	46.7	2,148	1,895	13.4
Depreciation	212	198	7.0	207	2.8	848	774	9.6
Interest	26	36	(27.1)	28	(4.4)	92	140	(34.4)
PBT	328	239	37.3	152	115.6	1,208	981	23.2
Tax	137	74	86.3	63	119.0	411	346	18.7
Share in associates	18	12	54.3	16	9.1	39	19	109.6
Minority Interest	(6)	(7)	-	(8)	-	39	40	(0.3)
Reported PAT	203	170	19.1	98	106.3	797	614	29.8
No. of shares (mn)	25.9	25.9	-	25.9	-	28.4	27.5	-
EBITDA margin (%)	34.5	30.3	-	26.7	-	34.9	32.7	-
PBIDT margin (%)	35.6	31.9	-	28.8	-	35.8	33.5	-
EPS (Rs.)	7.8	6.6	19.1	3.8	106.3	28.0	22.3	25.6

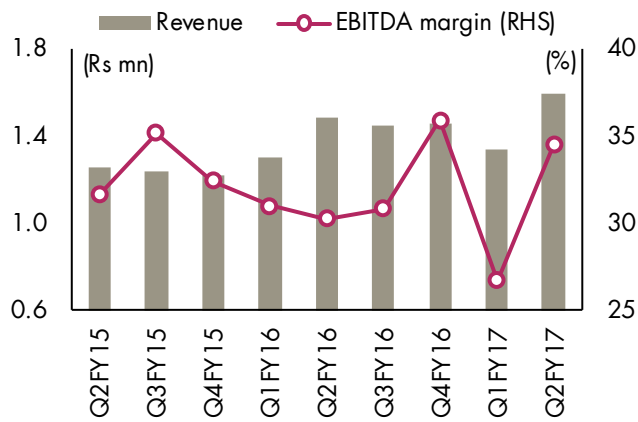
Source: Company, Axis Capital

Note: *Tax expense includes Rs 24.4 mn tax paid by UFO's subsidiaries on inter-company divided income

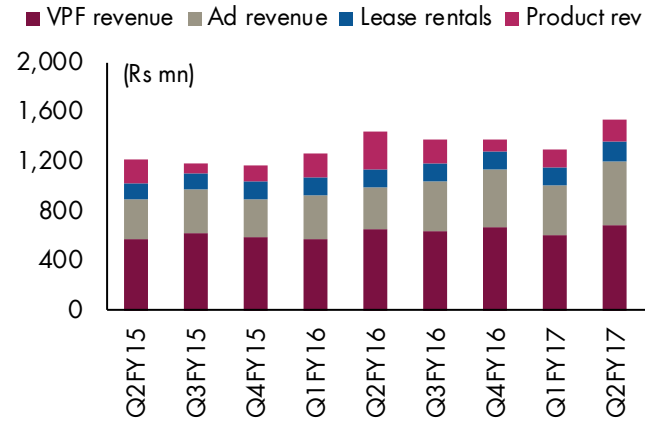
Other highlights

- ◆ **Ad revenue share** with single-screen owners declined to 27.4% in Q2FY17 vs. 32.8% in Q2FY16 and 30% in FY16; expected to decline further to 26-27% going ahead as ad revenue scale up
- ◆ The management highlighted shift in some single screen theaters to multiple-screen theaters, which resulted in optical increase in its aggregate ad screens; however, aggregate seating capacity remained largely unchanged
- ◆ **VPF revenue growth was primarily driven by higher proportion of revenue generating shows (week 1 and 2)** vs. non-revenue generating shows (post week 2) in the quarter
- ◆ **UFO Framez:** Management highlighted that 366 clusters (of 600 aggregate clusters planned) have been activated by appointing Direct Selling Agents(DSAs)- target hyper-local/ retail ad spends, which will boost its ad volumes as well as yields, as local ads fetch much higher realization
- ◆ **Capex plans:** Management guided for a capex of Rs 500-600 mn annually, primarily for replacement of existing and addition of new equipment; Nova Cinema capex of Rs 150-180 mn to be incremental over FY17-18
- ◆ **Net Working Capital was stable** as receivable days stood at 81 days in the quarter; UFO reported a net cash of Rs 380 mn and gross debt of Rs 44 mn in H1FY17
- ◆ **Caravan Talkies:** After monsoon, UFO has restarted its operations in mid-October (40 vans operational currently) and plans to scale it up to 80-90 vans in H2FY17. The management maintained its guidance of cash breakeven in H2FY17

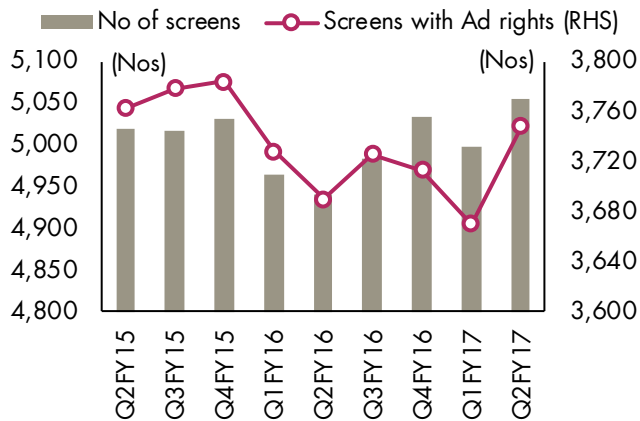
Quarterly performance

Exhibit 2: EBITDA margin rebounds on strong ad growth


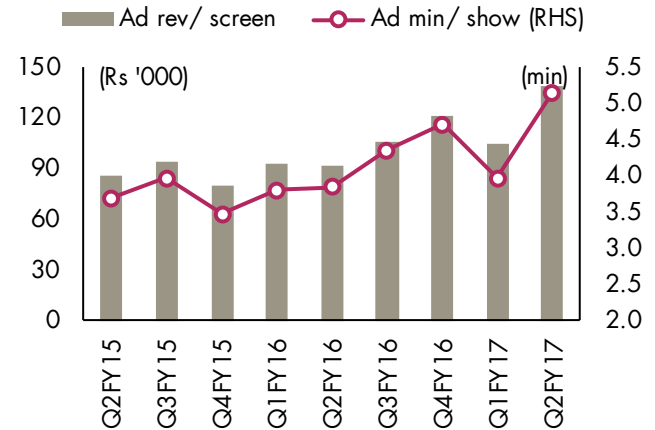
Source: Company, Axis Capital

Exhibit 3: Segmental revenue break-up


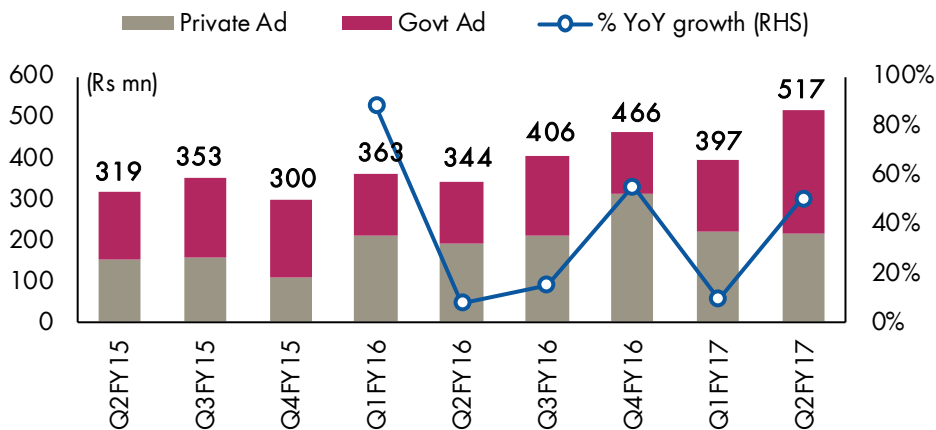
Source: Company, Axis Capital

Exhibit 4: Ad rev/ screen healthy; ad screens improve QoQ


Source: Company, Axis Capital

Exhibit 5: Ad revenue rise on higher volume and realization


Source: Company, Axis Capital

Exhibit 6: Ad revenue break-up and growth


Source: Company, Axis Capital

Financial summary (Consolidated)

Profit & loss (Rs mn)

Y/E March	FY15	FY16	FY17E	FY18E
Net sales	4,772	5,655	6,001	6,576
Other operating income	22	66	25	25
Total operating income	4,793	5,721	6,026	6,601
Cost of goods sold	(1,916)	(2,425)	(2,207)	(2,285)
Gross profit	2,878	3,296	3,819	4,316
<i>Gross margin (%)</i>	<i>60.3</i>	<i>58.3</i>	<i>63.6</i>	<i>65.6</i>
Total operating expenses	(1,269)	(1,448)	(1,722)	(1,895)
EBITDA	1,608	1,848	2,097	2,421
<i>EBITDA margin (%)</i>	<i>33.7</i>	<i>32.7</i>	<i>34.9</i>	<i>36.8</i>
Depreciation	(769)	(774)	(848)	(860)
EBIT	839	1,074	1,248	1,561
Net interest	(201)	(140)	(92)	(92)
Other income	50	47	52	57
Profit before tax	688	981	1,208	1,525
Total taxation	(180)	(346)	(411)	(526)
<i>Tax rate (%)</i>	<i>26.1</i>	<i>35.3</i>	<i>34.0</i>	<i>34.5</i>
Profit after tax	509	635	797	999
Minorities	(21)	-	-	-
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	488	635	797	999
<i>Adj. PAT margin (%)</i>	<i>10.2</i>	<i>11.2</i>	<i>13.3</i>	<i>15.2</i>
Net non-recurring items	-	-	-	-
Reported net profit	488	635	797	999

Balance sheet (Rs mn)

Y/E March	FY15	FY16	FY17E	FY18E
Paid-up capital	259	275	284	284
Reserves & surplus	4,274	4,890	5,361	5,961
Net worth	4,533	5,165	5,645	6,245
Borrowing	560	436	-	-
Other non-current liabilities	572	493	493	493
Total liabilities	7,731	8,483	8,153	8,866
Gross fixed assets	7,604	8,272	8,932	9,592
Less: Depreciation	(2,852)	(3,631)	(4,479)	(5,339)
Net fixed assets	4,752	4,641	4,453	4,252
Add: Capital WIP	89	71	71	71
Total fixed assets	4,842	4,711	4,523	4,323
Total Investment	128	361	361	361
Inventory	111	115	121	132
Debtors	1,054	1,515	1,386	1,518
Cash & bank	578	668	643	1,347
Loans & advances	121	290	151	132
Current liabilities	1,993	2,283	1,870	1,943
Net current assets	48	371	521	1,265
Other non-current assets	719	757	879	974
Total assets	7,731	8,483	8,153	8,866

Source: Company, Axis Capital

Cash flow (Rs mn)

Y/E March	FY15	FY16	FY17E	FY18E
Profit before tax	688	981	1,208	1,525
Depreciation & Amortisation	(769)	(774)	(848)	(860)
<i>Chg in working capital</i>	<i>(215)</i>	<i>(224)</i>	<i>(175)</i>	<i>(41)</i>
Cash flow from operations	1,136	1,230	1,551	1,893
<i>Capital expenditure</i>	<i>(331)</i>	<i>(602)</i>	<i>(660)</i>	<i>(660)</i>
Cash flow from investing	(476)	(859)	(730)	(699)
<i>Equity raised/ (repaid)</i>	<i>-</i>	<i>265</i>	<i>9</i>	<i>-</i>
<i>Debt raised/ (repaid)</i>	<i>(402)</i>	<i>(223)</i>	<i>(436)</i>	<i>-</i>
<i>Dividend paid</i>	<i>-</i>	<i>(176)</i>	<i>(287)</i>	<i>(360)</i>
Cash flow from financing	(599)	(281)	(845)	(491)
Net chg in cash	60	90	(25)	703

Key ratios

Y/E March	FY15	FY16	FY17E	FY18E
OPERATIONAL				
FDEPS (Rs)	18.8	23.1	28.0	35.2
CEPS (Rs)	48.6	51.2	57.9	65.4
DPS (Rs)	-	8.0	8.4	10.5
Dividend payout ratio (%)	-	34.7	30.0	30.0
GROWTH				
Net sales (%)	12.5	18.5	6.1	9.6
EBITDA (%)	20.8	14.9	13.5	15.4
Adj net profit (%)	2.5	30.0	25.6	25.3
FDEPS (%)	2.5	22.5	21.5	25.3
PERFORMANCE				
RoE (%)	11.4	13.1	14.8	16.8
RoCE (%)	15.7	18.8	20.8	24.5
EFFICIENCY				
Asset turnover (x)	1.0	1.2	1.2	1.4
Sales/ total assets (x)	0.6	0.7	0.7	0.8
Working capital/ sales (x)	(0.1)	(0.1)	-	-
Receivable days	80.6	97.8	84.3	84.3
Inventory days	12.7	10.8	11.2	11.5
Payable days	75.2	84.9	67.2	63.4
FINANCIAL STABILITY				
Total debt/ equity (x)	0.1	0.1	-	-
Net debt/ equity (x)	-	(0.1)	(0.2)	(0.3)
Current ratio (x)	1.0	1.2	1.3	1.7
Interest cover (x)	4.2	7.7	13.6	16.9
VALUATION				
PE (x)	25.4	20.8	17.1	13.6
EV/ EBITDA (x)	8.2	6.9	5.9	4.9
EV/ Net sales (x)	2.8	2.3	2.1	1.8
PB (x)	2.7	2.6	2.4	2.2
Dividend yield (%)	-	1.7	1.8	2.2
Free cash flow yield (%)	0.1	-	0.1	0.1

Source: Company, Axis Capital

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HOLD	Between 10% and -10%
SELL	Less than -10%

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