PLATINUM
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Recommendation:
HOLD
TP: HK$53.45 (+13.7%)

Television Broadcasts Ltd. (511.HK)

24 October 2013

SECTOR: Broadcasting **HSI: 22,835.82** **PRICE: HK$47.00**

EARNINGS					
For the fiscal year ended	**Dec-11**	**Dec-12**	**Dec-13**	**Dec-14**	**Dec-15**
Revenue (HK$b)	5.21	5.45	5.36	6.44	5.6
Operating profit (HK$b)	2.3	2.24	2	2.45	2.07
Net profit (HK$b)	1.55	1.72	1.61	1.98	1.67
EPS (HK$)	3.55	3.95	3.68	4.51	3.81
% change		*11.3%*	*(6.8%)*	*22.6%*	*(15.5%)*
DPS (HK$)	2.2	2.6	2.58	3.16	2.67
P/E (x)	13.24	11.90	12.77	10.42	12.34
Dividend yield (%)	4.68%	5.53%	5.49%	6.72%	5.68%

KEY DATA	
Issued capital	438.0
Market cap (HK$m)	20,586.0
6 mth Avg. Daily Volume (m shrs)	0.5
52-wk high/low	62.9 / 46.45
Net gearing	Net cash
Book value per share (HK$)	17.34
Free float (%)	73.63%
Major shareholder	Consortium (see Section 2) (26%)
	Shaw Foundation (3.64%)

INTERIM RESULTS			
For the six months ended	**Jun-12**	**Jun-13**	**YoY (%)**
Revenue (HK$b)	2.45	2.59	*5.7%*
Opearting profit (HK$b)	1.03	0.93	*(9.7%)*
Net profit (HK$b)	0.85	0.77	*(9.4%)*
EPS (HK$)	1.94	1.76	*(9.3%)*

Note: Differences may arise due to rounding errors
Source: Company filings, HKEx, Bloomberg, Platinum estimates

SECTION 1 RESULTS BRIEFING

Single-digit growth indicates sluggish performance

Sluggish 1H13 results. Turnover is up 6% YoY to HK$2.6b, but net profit is down 9.4% to HK$440m. Overall revenue segment breakdown saw little change in terms of structure. Hong Kong TV broadcasting and licensing and distribution made up 73% (vs. 70% in 1H12) of the total revenue, and 82% in net profit (vs. 76% in 1H12). Operating margins fell from 42.0% in 1H12 to 35.9% in 1H13, due to higher staff and administrative costs.

Higher payout ratio reflects strong cash position

Consistent dividend payment; prudent management of cash. Payout ratio rose 3ppts YoY to 34%. The company announced an interim dividend of HK$0.6 per share, consistent with last year's payment. Looking ahead, given its solid net cash position of HK$2.2b, combined with expected revenue from the upcoming World Cup 2014 ("WC") event, we believe a payout of 30%-35% should be sustainable over the next 3 years.

China drove business due to tough competition in other markets

China the strong growth engine; Taiwan underperformed due to tough environment. As expected, its China business performed strongly, rising 34% YoY to HK$181m. However, as Taiwan has over 200 television channels, TVB's Taiwan channel TVBS has been facing tough competition, resulting in a YoY decline of of 7% to HK$396m.

SECTION 2 COMPANY BACKGROUND

Market share of over 90%

Hong Kong's leader in the local free-to-air TV market. Sir Run Run Shaw founded Television Broadcasting Limited ("TVB") in 1967. The company currently operates seven free-to-air Chinese and English channels (see Exhibit 1) and 47 paid-TV channels under TVB Network Vision ("TVBNV") in Hong Kong. The Company operates various channels in Taiwan, and China as well.

Exhibit 1: Major TVB channels

Region	Major channel(s)
HK (Chinese)	Jade, Jade Digital, HD Jade, J2, iNews
HK (English)	Pearl, Pearl Digital Services
Taiwan	TVBS
China	TVBC
Malaysia & Singapore	TVB8, Xing He

Source: Company data, Platinum estimates

A global leader in Chinese language programming

The Company is one of the largest producers of Chinese language programmes in the world. It programmes are distributed to over 40 countries and 100 cities. TVB transmits over 17,000 hours of programming every year. The Company's rich library can be accessed through its website on www.tvb.com.

Strong online presence through a JV with Yukou Tudou

Aside from in-house online and mobile platforms, TVB operates an online joint venture with Youku Tudou (YOKU.US), airing over 2,500 hours of content. Youku Tudou is reported to have over 100m daily viewers.

Latest market research from Nielsen indicates that TVB's flagship Chinese Jade channel achieved over 90% market share, and the English Pearl channel over 80% in the Hong Kong market. They also have contracts with over 90% of Hong Kong's pop singers and as well as other artistes.

Advertising represents 85% of revenues

Most of TVB's income is generated from advertising, followed by programme licensing and distribution of its in-house drama productions. Hong Kong, Taiwan, Malaysia and Singapore are main revenue contributors, representing c.85% of 1H13 revenue.

2011 saw a shift in shareholding structure

In January 2011, the Company saw a major change in ownership. The shareholders of Shaw Brothers Ltd, the original founders of TVB led by Sir Run Run Shaw, sold their entire shareholding of 26% to a consortium, composed of: 1) Mr. Charles Chan Kwok Keung, 2) Madam Cher Wang Hsiueh-Hong, Chairwoman of HTC Corp (2498.TT), and 3) Providence Equity Partners, a US private equity firm led by Mr. Jonathan M. Nelson. Sir Run Run Shaw's wife Mona still holds 0.26% of the company, and the Shaw Foundation HK Ltd holds 3.64%. Together, they hold 29.9% of the Company.

Expanding production capability in Taiwan

In 2012, TVB announced plans to build a new production headquarters in Linkou, Taiwan to further production capabilities. Construction work will begin in 1H14. The Company is currently upgrading technologies of its Taiwan News Channel. A full switch from standard definition to HD quality is expected to take place in 4Q13.

TVB's free-to-air contract expires on November 30, 2015.

In September 2013, the Communications Authority of Hong Kong handed a HK$900,000 fine to TVB for anti-competition practices, indicating that TVB imposed unreasonable contract terms on its artists and abused its leading market position. TVB is currently preparing for an appeal.

SECTION 3 BUSINESS OUTLOOK

Minimal threat from new entrants

Free-to-air licences outcome averted worst case for TVB; new entrants pose minimal risk to TVB. The HK government recently granted i-Cable (1097.HK) and PCCW (8.HK) new free-to-air TV licences, leaving out Hong Kong Television ("HKTV") (1137.HK). This outcome is highly favourable to TVB, as Now TV's and i-Cable's channels pose little competition to TVB's leading market position.

Exhibit 2: Summary of free-to-air licence holders

	Total free TV channels	Total paid TV channels	Market share in free TV space (%)	Key revenue drivers	From	Other points
TVB	7	47	93%	Advertising Licencing & distribution	Primetime airspace In-house production	1) Sealed World Cup 2014 broadcasting rights 2) Card rates on TVB is on average 3x more than card rate charged on ATV 3) Value-added JV in the digital scene with Youku Tudou 4) Relatively popular productions backed by overseas Chinese and South East Asians
ATV	8	0	7%	Advertising	Primetime airspace	1) Poor reviews and company strategy has switched to heavily importing Asian dramas and filling primetime airspace with trailers of ATV productions
HK Television Entertainment Company (PCCW)	2*	206	-	Advertising Subcription fees	Advertising TV, broadband & Telephony	1) Airs in-house lifestyle/entertainment programmes for new free-to-air channel, but no in-house drama productions or productions to be licenced or distributed 2) Imported channels, movies, sport programmes in paid TV segment 3) Sealed major sports broadcasting rights in paid TV segment (ie. Barclays Premier League, NBA, NFL, Tennis, Snooker) 4) NOW TV can form synergies with PCCW's telecom business
Fantastic Television (i - Cable)	2*	120	-	Advertising Subcription fees	Advertising TV, broadband & Telephony	1) Airs in-house lifestyle/entertainment programmes for new free-to-air channel, but no in-house drama productions or productions to be licenced or distributed 2) Current operating model heavily relies on Imported channels, movies, sport programmes in paid TV segment 3) Relatively weaker sports broadcasting coverage (UEFA Champions League, Europa League, incomplete coverage of J-League, Italia Serie A, FA Cup, Spanish La Liga, and Bundesliga) 4) Declining subscribers

* - According to company proposals, a second channel will commence operation 24 months after receiving licence

Source: Hong Kong Communications Authority, Company data, Platinum estimates

Several important points to highlight:

1) Neither PCCW nor i-Cable's free TV channels will commence operations for at least the next 12 months because a final approval process will need to take place before formal operations begin.
2) HKTV announced that they intend to file an application for a judicial review on the free-to-air licence decision, which may cause further delays.
3) Both new free channels will require lead time, probably of at least 12 months, to set up and prepare for operational commencement. The new channels will not compete directly with TVB in the primetime drama space in FY13E and FY14E at all (because of point 1). On top of that, the new channels do not plan to embark upon operations relating to drama production arena. Ultimately, this means that TVB's market share in the primetime TV drama production or related business segments (namely licensing and distribution) will not see any major deterioration.
4) Card rates for PCCW and i-Cable free TV segment have not been published, but they are unlikely to command the same prices as TVB does.

No threat to market share due to disparate operating models amongst competitors

In summary, TVB's: 1) market share, 2) overall operations and 3) pricing power will not see any material setbacks within the investment horizon of the next 2 years. There is no competing channel that can create significant negative impact to its earnings drivers, due to entirely different operating models and to the lead time caused by legal and logistical issues. The fundamental outlook during our investment horizon remains intact.

Exhibit 3: Breakdown of traditional income

Turnover Breakdown (HK$m)	2009	2010	2011	2012	2013E	2014E	2015E
Turnover	3,983	4,675	5,209	5,448	5,184	5,462	5,601
Hong Kong TV broadcasting	2,072	2,533	2,987	3,167	2,918	3,127	3,205
Programme licensing and distribution	667	785	903	940	1,034	993	1,034
Overseas satellite pay TV operations	348	372	389	389	336	384	386
Taiwan operations	630	753	834	834	794	849	862

Source: Platinum estimates

SE Asia business intact, licensing agreements run to 2016

Southeast Asia exposure maintained. Notably, the Company renewed its master licensing agreements with ASTRO of Malaysia and Starhub of Singapore, which will expire in 2016. As Malaysia and Singapore traditionally represent a considerable 10%-13% of revenue, due to the popularity of its shows in the South East Asian countries, TVB's exposure in the area is maintained and will contribute to its programme and licensing segment up to HK$500m this year.

Expenses may eat into overall balance, but WC will provide a boost

High capex ahead and sustained high administrative costs; operating costs are the main problem. Advertising spending may continue to be challenging for 2H13. The pay-TV business requires additional capex to move from satellite to cable, and for upgrades to high definition. There will be some duplication of costs and possibly future losses moving forward. We anticipate c.HK$2.0b will be spent on capex in the next two years. This figure includes the construction of additional office space and studio facilities in both Hong Kong and Taiwan. The company is also expected to experience mid-to-high teen growth in its administrative and distribution costs due to commencement of China operations, as well as staff costs due to working capital related expenses (such as travelling reimbursements and wages). We are unlikely to see any immediate need for debt raising in the next two years. TVB currently sits on a comfortable net cash position of HK$2.2b; additional income generated by WC will help to further boost its cash position.

Stable outlook for the remainder of FY13e

FY2013 holds little surprises, but we consider the 2014 outlook favourable due to WC bid. 2013 revenue will see stable returns, as there is no major catalyst to propel earnings surprises. On the other hand, 2014 will see TVB receive a one-off additional gain from advertising of up to about HK$1.15b from WC. Net of the licensing costs, that would amount to gross revenue to approximately HK$754m.

World cup bid to drive earnings growth

Formal pricing plans for WC have not yet been published; but our analysis shows that the WC bid is an earnings generating business. Using existing mid-range card rates, and assuming typical standards of football reporting are enforced, we can reasonably infer that WC can generate about HK$754m in gross revenue.

Based on company announcements, we envision that scheduling arrangements will look something like this:

Exhibit 4: WC match breakdown

	Free TV	Paid TV	Total
Group Matches	13	35	**48**
Round of 16	4	4	**8**
Quarter-finals	2	2	**4**
Semi-finals	2	0	**2**
Match for 3rd place	0	1	**1**
Final	1	0	**1**
Total	**22**	**42**	**64**

Source: FIFA, Platinum estimates

We believe that this is reasonable because the card rates of the free TV segment command a high premium over that of the Paid TV segment. TVBNV's most expensive package charges HK$94 per second, for which TVB Jade charges HK$32,088 per second. Key popular matches, notably the WC Final and opening match, will be aired on free TV for that reason.

High card rates for primetime television

We also assume that typical sport reporting standards are carried out, which include:

1) Pre/post match and half time advertising
2) Daily highlights (one in the daytime because matches occur in the early mornings in HK time, and one during primetime around before games start in the early hours)

Following this method, we discover that highlights during primetime television will be the main revenue driver of the event (Exhibit 5). This is due to TVB's high card rates for primetime television.

Exhibit 5: WC match revenue breakdown

	No. of games	HK$m
Free-to-air TV		
Group Stage	13	77.6
Round of 16 & Quarter-finals	6	140.2
Semi-finals & Match for 3rd place	3	114.6
		332.4
Paid TV		
Group Stage	35	5.2
Round of 16 & Quarter-finals	6	0.9
Final	1	0.1
	64	**6.3**
Highlights[1]		
Dedicated highlights during primetime	22	698.4
Dedicated highlights during daytime/lunch hour	22	85.6
World Cup Final highlights	1	31.7
	45	**815.8**
		1,154.5
	Broadcasting rights	**(400.0)**
	Est. gross revenue	**754.5**

Source: Platinum estimates
Note 1 - Several matches occur on the same day in the early stages of WC, which explains the fewer total match highlight segments

Broadcasting highlights during daytime and primetime in free TV most lucrative

Time zone differences offer opportunities to further generate additional revenue; highlights alone can generate up to HK$815m. Because of Brazil's 14-hour time difference, live broadcasts will be aired in the early hours Hong Kong time. This is advantageous to TVB as they can broadcast extended highlights during daytime and during primetime in the free TV space. Not only this is consistent with most football reporting methods, this is the most sensible way to capture viewers during high earning time slots in order to maximise revenue.

WC scheduling and pricing are major catalysts. We believe that our forecasts for WC revenue are conservative, in that we only accounted for two major highlight segments; there is potential for this number to be higher, given that these segments will generate most revenue. We currently assume that there will be a 90-minute extended highlight programme during the day and a 120-minute extended highlight programme during primetime, for this approach is generally consistent with most international sports broadcasters in previous WCs and other international football tournaments (i.e. UEFA Euro). While pricing plans for WC are not available, we have reached the above estimates by using mid-range existing card rates of the appropriate time slots.

SECTION 4 VALUATION

Exhibit 6 – Relative valuation

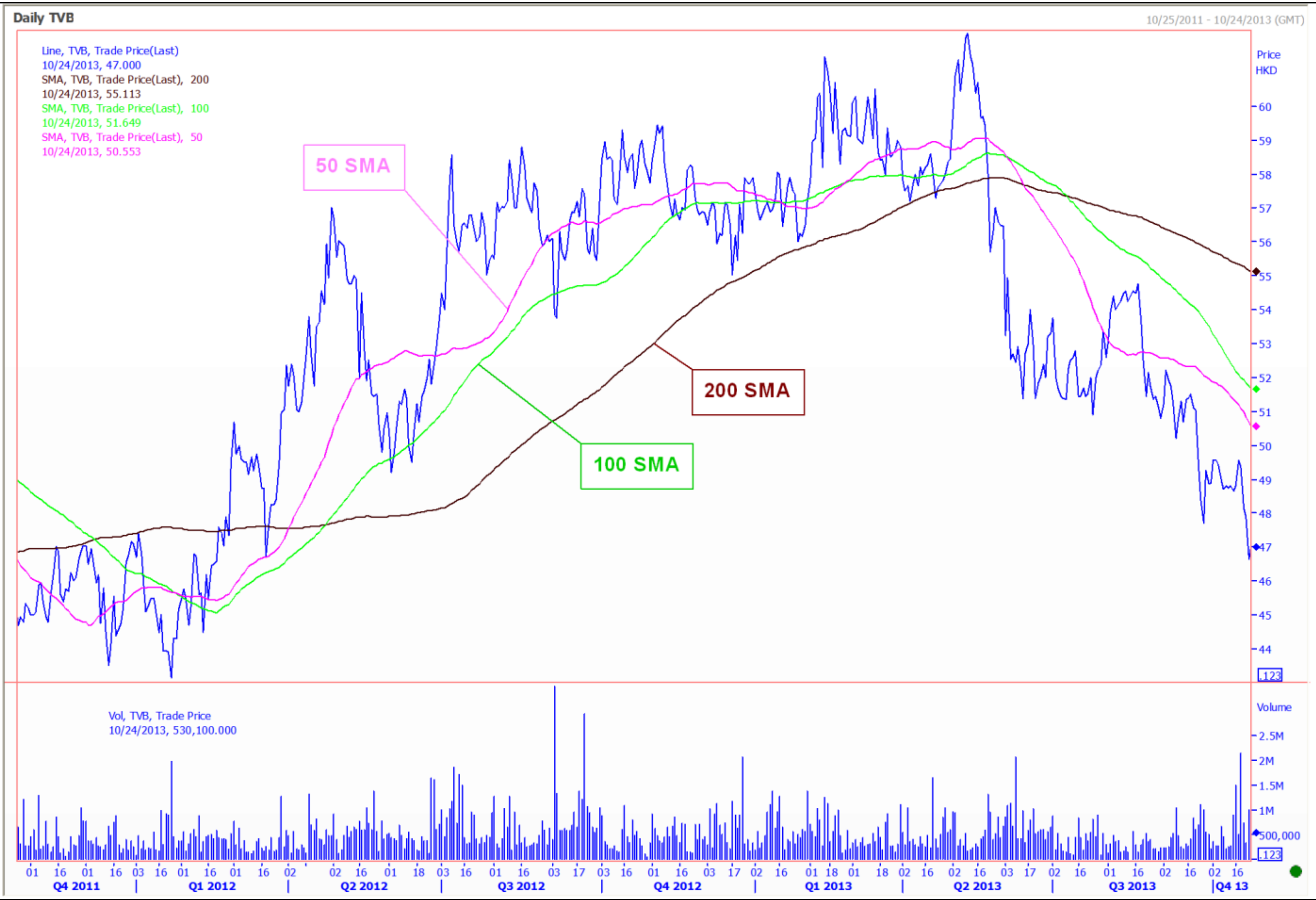
	Name	Ticker	Mkt cap (HK$m)	Closing price (HK$)	52-week High/Low (HK$)	6M Volume (m shrs)	6M Turnover (HK$m)	FY12 PER (x)	FY13E PER (x)	FY14E PER (x)	FY15E PER (x)
Asian television broadcasters											
1	Television Broadcasts Ltd	511 HK	20,586	47.00	62.9 / 46.45	0.51	27.2	11.90	12.21	11.65	10.93
2	Phoenix Satellite Television	2008 HK	14,092	2.82	3.39 / 2.24	4.41	12.4	16.90	14.10	13.12	10.07
3	Zee Entertainment Enterprise	Z IN	32,031	33.36	34.46 / 21.89	2.79	86.3	43.57	35.34	29.67	24.70
4	Global Mediacom Tbk Pt	BMTR IJ	19,091	1.36	1.97 / 0.97	29.84	46.9	19.90	18.65	14.67	11.52
5	Sun Tv Network Ltd	SUNTV IN	21,078	53.49	62.36 / 39.19	1.01	52.1	24.14	23.60	20.46	17.21
6	Nippon Television Holdings	9404 JP	37,950	143.85	152.53 / 77.93	0.64	86.8	1.95	18.88	15.63	14.66
7	Fuji Media Holdings Inc	4676 JP	37,247	157.54	185.48 / 87.73	1.41	216.0	0.08	15.42	20.83	17.34
8	Media Nusantara Citra Tbk Pt	MNCN IJ	26,017	1.85	2.59 / 1.6	23.28	52.1	22.03	18.89	15.67	13.14
9	Surya Citra Media Pt Tbk	SCMA IJ	24,482	1.67	2.2 / 1.37	5.85	11.9	25.22	23.58	19.53	16.32
10	Tokyo Broadcasting System	9401 JP	20,072	105.40	129.2 / 58.27	0.33	34.4	17.72	26.32	23.84	21.98
11	Bec World Public Co Ltd	BEC TB	29,222	14.61	19.77 / 12.25	3.43	52.6	24.58	20.67	18.76	17.07
Simple avg								**18.91**	**20.70**	**18.53**	**15.90**
Mkt cap wtd avg								**18.12**	**21.03**	**19.04**	**16.41**

Sources: Company data, IBES, Bloomberg, Platinum estimates

Modest outlook in traditional segments; WC a key returns driver

TP: HK$53.45 +13.7% HOLD. Apart from TVB's relatively attractive >5% yield, we believe that the WC can help to bolster returns in 2014. Other catalysts include subscription uptake of TVB.com with 10% of viewers getting some form of subscription could generate almost HK$27m of income per year. Its advertising revenue sharing scheme with Youku Tudou JV can offer further surprise on the upside. We value the company at 11.5x 2014E P/E, at a 40% discount to Asian peers, consistent with TVB's historical characteristic of consistently trading at a similar level below the market valuation. This yields a target price of HK$53.45, representing 13.7% upside. HOLD.

Exhibit 7 – TVB 2-year share price performance



Source: Bloomberg, Platinum estimates

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