

RESULTS

REVIEW

UFO Moviez India Ltd.

All-set for an uptick in advertisement growth in FY18

BUY

Nifty: 9,429; Sensex: 30,435

CMP	Rs427
Target Price	Rs690
Potential Upside/Downside	62%

Key Stock Data

Sector	Media
Bloomberg/Reuters	UFOM IN/UFOM.BO
Shares o/s (mn)	28
Market cap. (Rsmn)	11,776
Market cap. (US\$ mn)	182

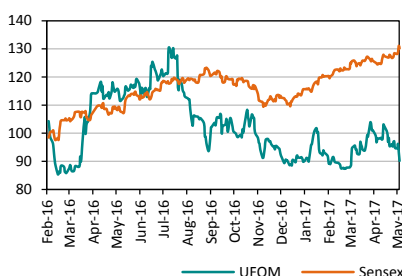
Price Performance

52-week high/low	Rs625/390
	-1m -3m -12m
Absolute (%)	(3) 6 (18)
Rel to Sensex (%)	(7) 1 (37)

Shareholding Pattern (%)

Promoters	28.1
Institutions	47.3
Non-Institutions	24.6

Relative to Sensex



Source: Ace Equity

- Q4FY17 advertisement revenue declined by 3.6% YoY higher than our forecast of a 1.2% decline. Over-all revenue growth was a beat due to higher hardware sales. EBITDA margin of 31.2%, -490bps YoY, was a miss. However, EPS of Rs7.1, +7.7% YoY, was a beat aided by lower tax rate.
- UFO Moviez has maintained its FY18 guidance for a 30% advertisement revenue growth. Given the pick-up in CARVAN business and alliance with United Media Works, we are confident of UFO Moviez achieving the guidance and forecast a 34% YoY growth.
- We largely maintain our FY18/19 revenue/EBITDA/EPS forecast. We rollover to FY19E and value UFO Moviez at 8x EV/EBITDA (9x FY18E earlier). We maintain BUY with TP of 690 (from Rs675).

Result Highlights and Investment Rationale

- Q4FY17 advertisement revenue misses our forecast**
UFO Moviez continued to witness the impact of demonetization in in-cinema advertisement and more so in its CARAVAN business where it was expecting a pick-up. In fact, the CARVAN business was non-operational in Q4. As a result, the advertisement revenue declined by 3.6% YoY missing our forecast of a 1.2% decline. While the no. of advertisement minutes sold (per show/screen) declined by 6.6% YoY to 4.4min realization increased by 5.8% YoY to Rs75.8/min. The increase in realization was mainly driven by the better mix in the corporate segment.
- Total revenue grew by 5.8% YoY beating our forecast**
We were forecasting the over-all revenue to remain flattish. The beat was driven by higher hardware sales which grew to Rs293 mn vs. Rs102 mn in Q4FY16 and was 2x of our forecast. The VPF D-cinema and VPF International saw a decline of 19.2% and 6.8%, as expected.
- Q4FY17 EBITDA margin of 31.2%, -490bps YoY**
This was mainly driven by 1) growth in hardware sales, which has lower margin and 2) decline in advertisement revenue. EPS of Rs7.1, +7.7% YoY, was a beat to our forecast aided by lower tax rate which declined to 31.9% vs. 41.3% in Q4FY16.
- CARVAN business – improvement visible post realignment**
UFO Moviez has already completed the realignment of go-to-market and operational aspects. Its advertisement sales has been integrated with the in-cinema advertisement sales. The company has already seen benefits of the realignment with 47 vans operational and thus achieving break-even. It already has contracts in-place for 20 more vans. UFO Moviez confirmed that it will continue with its policy to operate a van only if it achieves breakeven.
- FY18 Guidance – Advertisement revenue growth of 30% maintained**
UFO Moviez has maintained its advertisement growth guidance. We believe that it is well placed to achieve the same given 1) strong movie content, 2) pick-up in UFO Framez, its hyper local advertisement platform, 3) deal with United Media Works contributing from Q2 onwards and 4) pick-up in CARAVAN business. We maintain our bullish outlook on uptick in growth in FY18 and now forecast growth of 34.1% YoY vs. 31.2% earlier.
- Maintain BUY and TP of Rs690 based on EV/EBITDA of 8x FY19E**
We maintain that UFO Moviez has significant re-rating opportunity given - 1) healthy earnings growth (we forecast FY17-19E CAGR of 19%), 2) improving RoCE (20.3% in FY19E vs. 14.7% in FY17) and RoE (17% in FY19E vs. 11.8% in FY17), 3) FCF yield of 9% in FY18E and 4) net cash B/S. We rollover to FY19E and value UFO Moviez at 8x EV/EBITDA vs. 9x FY18E earlier. The implied PER at our TP is 23.6x/20.8x FY18/19E which is reasonable given the earnings growth and improvement in RoCE/RoE.

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	18.7	6.5	13.2	16.4
FY17	5,967	1,823	30.5	631	22.9	18.6	6.1	11.8	14.7
FY18E	6,323	2,021	32.0	790	28.6	14.9	5.2	14.7	18.1
FY19E	6,779	2,212	32.6	895	32.4	13.2	4.4	16.9	20.3

Source: Company; IDBI Capital Research

Table 1: Actual vs. estimates

Year to March	Q4FY17	Q4FY17E	Variance (%)
Revenue (Rs mn)	1,549	1,478	4.8
EBITDA (Rs mn)	484	485	(0.4)
EBIT margin (%)	31.2	32.8	(161)bps
PAT (Rs mn)	195	179	8.6
PAT margin (%)	12.6	12.1	44bps
EPS (Rs)	7.1	6.5	8.6

Source: Company; IDBI Capital Research

Table 2: Financial snapshot**(Rs mn)**

Year-end: March	Q4FY17	Q4FY16	YoY (%)
Revenues	1,549	1,464	5.8
COGS	903	774	16.7
Gross profit	646	690	(6.4)
SG&A	162	162	0.2
EBITDA	484	528	(8.5)
Depreciation & amortization	208	191	8.7
EBIT	276	337	(18.2)
Other income	17	18	(6.0)
Interest cost	23	31	(24.7)
PBT	270	325	(16.9)
Tax	86	134	(35.7)
Adjusted net profit	184	191	(3.7)
Minority interest	(11)	10	n.m.
Reported net profit	195	180	8.1
Diluted EPS (Rs)	7.1	6.6	7.7
As % of net revenue			
Gross profit	41.7	47.1	
SG&A	10.5	11.0	
EBITDA	31.2	36.1	
EBIT	17.8	23.0	
Reported net profit	12.6	12.3	
Tax rate	31.9	41.3	

Source: Company; IDBI Capital Research

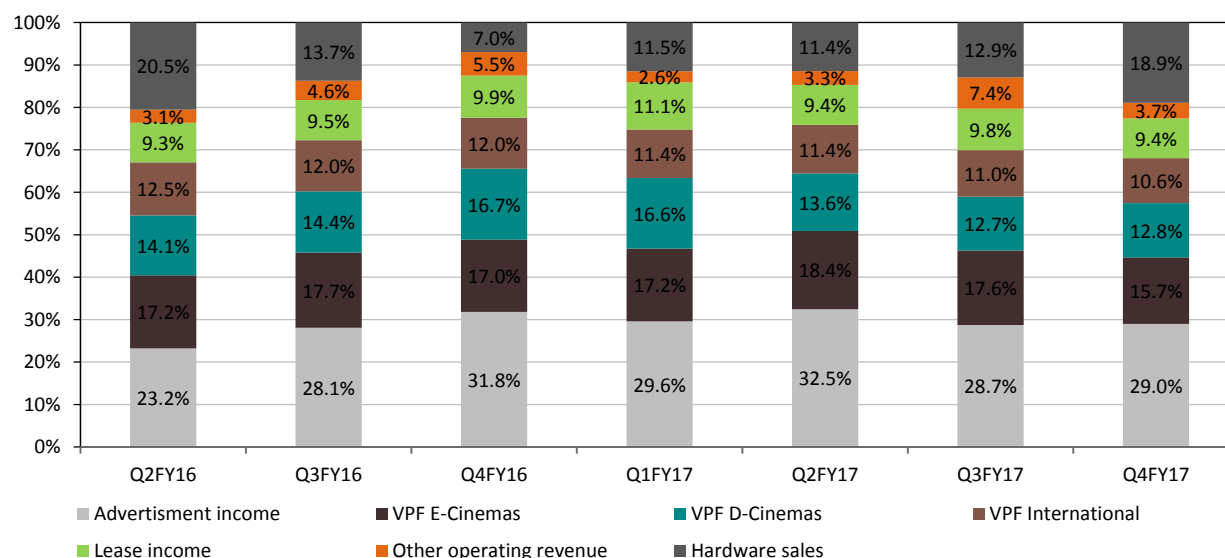
Table 3: Change in forecast

(Rs mn)

Year to March	FY18E			FY19E		
	Revised	Previous	Change (%)	Revised	Previous	Change (%)
Revenue (Rs mn)	6,323	6,230	1.5	6,779	6,714	1.0
EBITDA (Rs mn)	2,021	2,024	(0.1)	2,212	2,189	1.1
EBITDA margin (%)	32.0	32.5	(52)bps	32.6	32.6	3bps
EPS (Rs)	28.6	28.9	(0.9)	32.4	32.4	0.2

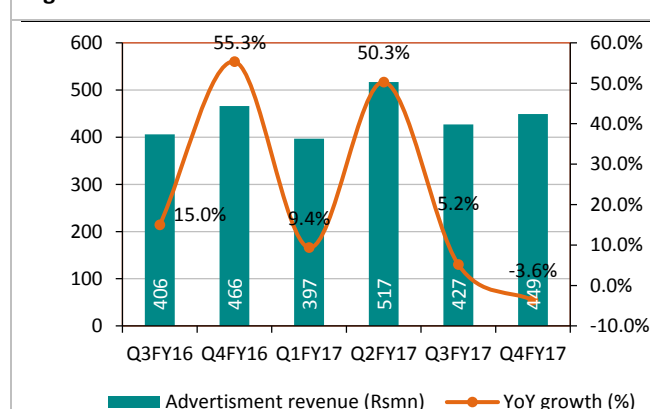
Source: IDBI Capital Research

Figure 1: Revenue mix trend



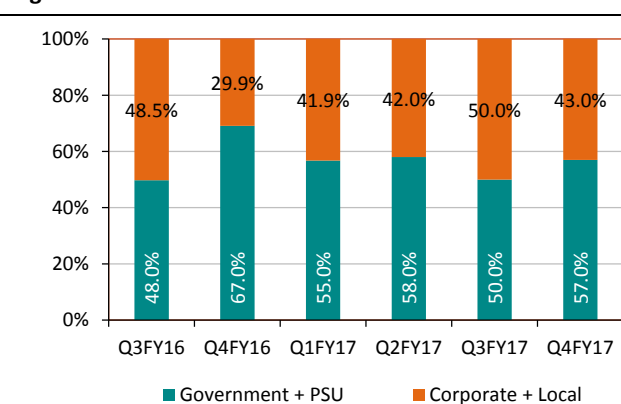
Source: Company; IDBI Capital Research

Figure 2: Advertisement revenue trend

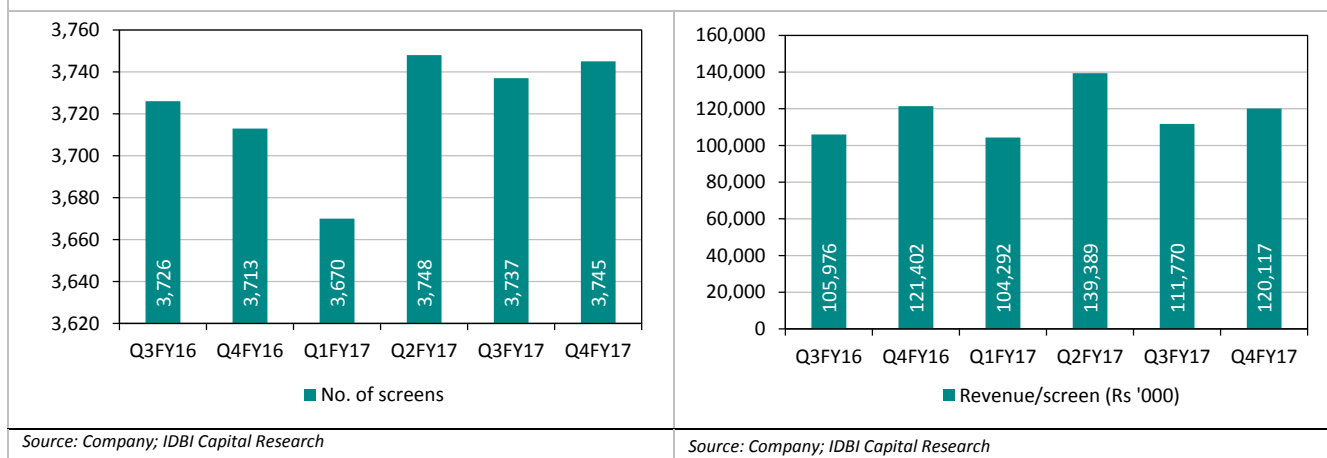
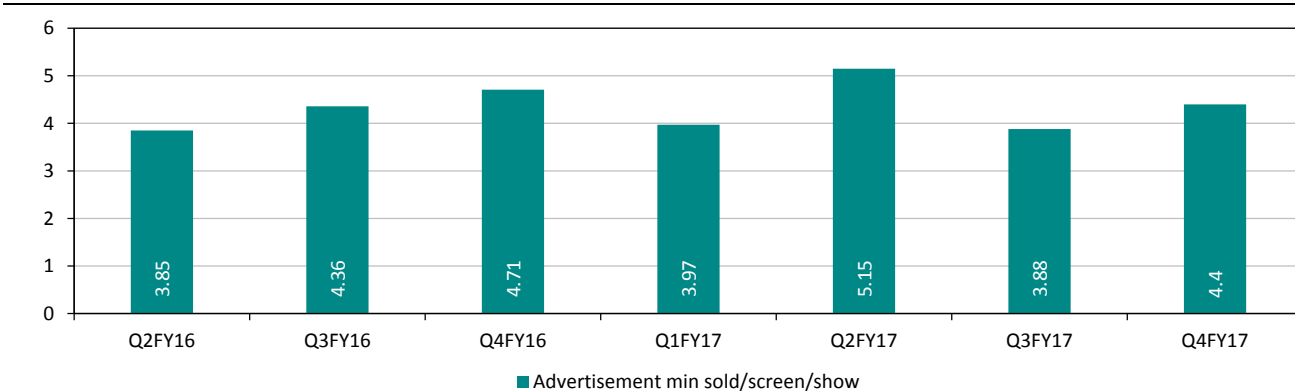
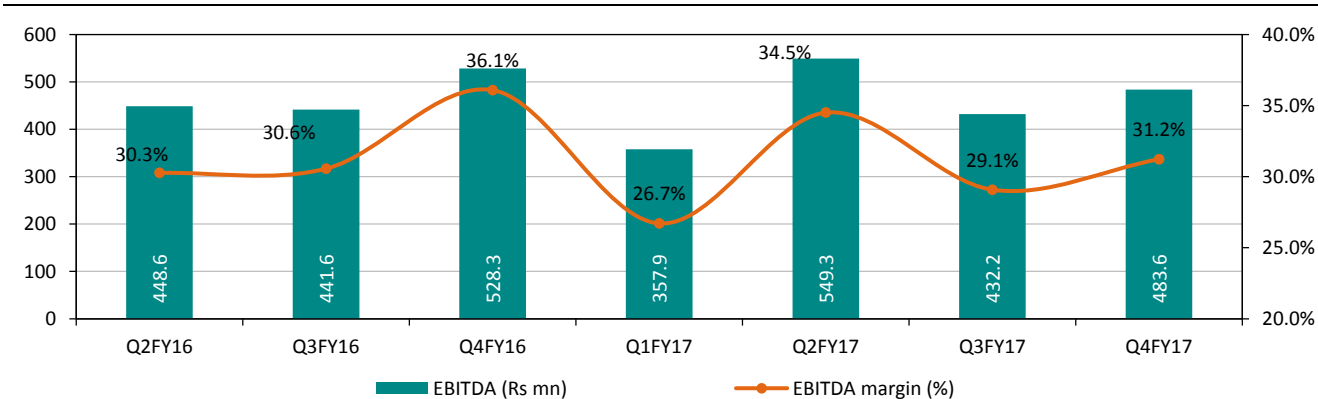


Source: Company; IDBI Capital Research

Figure 3: Advertisement revenue mix trend



Source: Company; IDBI Capital Research

Figure 4: In-cinema advertisement trend**Figure 5: Advertisement inventory utilisation trend****Figure 6: EBITDA margin trend**

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY16	FY17	FY18E	FY19E
Net sales	5,701	5,967	6,323	6,779
Growth (%)	19.8	4.7	6.0	7.2
Operating expenses	(3,881)	(4,144)	(4,302)	(4,567)
EBITDA	1,819	1,823	2,021	2,212
Growth (%)	22.2	0.2	10.9	9.4
Depreciation	(774)	(837)	(824)	(893)
EBIT	1,045	986	1,197	1,319
Interest paid	(140)	(102)	(97)	(97)
Other income	67	75	101	155
Pre-tax profit	972	959	1,201	1,376
Tax	(346)	(362)	(432)	(482)
Effective tax rate (%)	35.6	37.7	36.0	35.0
Net profit	626	597	769	895
Adjusted net profit	626	631	790	895
Growth (%)	41.6	0.8	25.2	13.2
Shares o/s (mn nos)	27	28	28	28

Balance Sheet

(Rs mn)

Year-end: March	FY16	FY17	FY18E	FY19E
Net fixed assets	4,712	4,518	3,253	2,960
Investments	80	155	155	155
Other non-curr assets	482	387	416	446
Current assets	2,935	3,518	4,313	5,140
Inventories	115	135	147	158
Sundry Debtors	1,515	1,482	1,577	1,690
Cash and Bank	948	1,555	2,208	2,883
Loans and advances	290	247	277	297
Total assets	8,209	8,578	8,137	8,700
Shareholders' funds	5,165	5,784	5,176	5,606
Share capital	275	276	276	276
Reserves & surplus	4,890	5,508	4,900	5,330
Total Debt	1,040	922	922	922
Secured loans	1,040	922	922	922
Unsecured loans	-	-	-	-
Other liabilities	219	93	93	93
Curr Liab & prov	1,679	51	1,854	1,987
Current liabilities	1,534	.	1,698	1,820
Provisions	146	51	156	167
Total liabilities	2,938	2,680	2,869	3,002
Total equity & liabilities	8,209	8,578	8,137	8,700
Book Value (Rs)	188	210	188	203

Source: Company; IDBI Capital Research

Cash Flow Statement

(Rs mn)

Year-end: March	FY16	FY17	FY18E	FY19E
Pre-tax profit	972	959	1,201	1,376
Depreciation	792	767	895	893
Tax paid	(428)	(433)	(432)	(482)
Chg in working capital	(239)	42	52	(11)
Other operating activities	99	327	(34)	(37)
Cash flow from operations (a)	1,195	1,662	1,681	1,740
Capital expenditure	(661)	(574)	(630)	(600)
Chg in investments	(19)	(75)	-	-
Other investing activities	-	-	-	-
Cash flow from investing (b)	(680)	(648)	(630)	(600)
Equity raised/(repaid)	249	1	-	-
Debt raised/(repaid)	(228)	(118)	-	-
Dividend (incl. tax)	(265)	(332)	(398)	(465)
Chg in minorities	33	42	-	-
Other financing activities	-	-	-	-
Cash flow from financing (c)	(211)	593	(1,398)	(465)
Net chg in cash (a+b+c)	304	607	653	675

Financial Ratios

Year-end: March	FY16	FY17	FY18E	FY19E
Adj EPS (Rs)	22.8	22.9	28.6	32.4
Adj EPS growth (%)	33.3	0.4	25.2	13.2
EBITDA margin (%)	31.9	30.5	32.0	32.6
Pre-tax margin (%)	17.1	16.1	19.0	20.3
ROE (%)	13.2	11.8	14.7	16.9
ROCE (%)	16.4	14.7	18.1	20.3
Turnover & Leverage ratios (x)				
Asset turnover (x)	0.7	0.7	0.8	0.8
Leverage factor (x)	1.7	1.6	1.6	1.6
Net margin (%)	11.0	10.6	12.5	13.2
Net Debt / Equity (x)	0.0	-0.1	-0.2	-0.3
Working Capital & Liquidity ratio				
Inventory days	7	8	9	9
Receivable days	97	91	91	91
Payable days	85	84	85	86

Valuation

Year-end: March	FY16	FY17	FY18E	FY19E
P/E (x)	18.7	18.6	14.9	13.2
Price / Book value (x)	2.3	2.0	2.3	2.1
PCE (x)	8.4	8.0	7.3	6.6
EV / Net sales (x)	2.1	1.9	1.7	1.4
EV / EBITDA (x)	6.5	6.1	5.2	4.4
Dividend Yield (%)	1.9	2.3	2.8	3.3



Notes

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Key to Ratings**Stocks:**

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

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