

The Pakistan Credit Rating Agency Limited
**RATINGS (APRIL 2009)
EYE TELEVISION NETWORK
LIMITED (ETNL)**

	Initial
Entity	
Long-Term	A
Short-Term	A1

**FINANCIAL DATA
PKR (mln)**

	End- Dec 2008*	End- Jun 2008	End- Jun 2007
Total Assets	1,241.4	1,025.5	695.1
Equity	688.8	732.3	506.9
Net	607.2	909.8	535.3
Turnover			
Net Income	156.5	225.3	100.4
EBITDA	265.1	396.6	180.9
ROA %	27.62	26.19	16.40
ROE %	44.05	36.36	21.98
Net Debt / EBITDA (x)	0.7	0.1	0.3
EBITDA Net Interest Cover (x)	17.3	46.4	26.9
Total Debt/Equity %	44.8	12.5	18.1

* Based on reviewed accounts for the period ended December 31, 2008.

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RATING RATIONALE AND KEY RATING DRIVERS

- The ratings reflect the company's sound capital structure, adequately experienced management team at key positions, quality operational infrastructure and technological platform, and a fast establishing viewership base for its various channels. The company's leading position amongst General Entertainment Channels (GECs) translated into strong growth in advertisement revenue and robust operating performance. However, the sustainability of performance is susceptible to the high business risks associated with a relatively nascent television media industry. Meanwhile, increasing trade debts remain a constrain upon the company's cash flows.
- The ratings are dependent upon the company's ability to maintain its market standing and generate sustainable advertising revenues in a highly competitive and challenging media industry. Moreover, any material debt-funded expansion, along-with possible incidence of non-realization of outstanding trade debts, is likely to increase the company's risk profile and ultimately impact upon the ratings.

ASSESSMENT

- Following the launch of the company's first channel, HUM TV, in Jan 2005, the company has successfully diversified into different genres of television, such as a food channel (Masala TV), a fashion channel (Style 360) and a music channel (Oye), in a short span of time. In terms of viewership, the company's channels are well rated amongst GECs. Since inception, the company has shown appreciable increase in revenues with high gross margins and ROE, enabling the company to recoup the initial losses associated with the gestation phase fairly early in its operational history. Despite increasing competition, the company has established a strong viewership base owing to high quality of its programs. The company follows stringent selection criteria for outsourced programs. In line with industry trends, revenue base is primarily restricted to advertising revenue, as opposed to a mix of advertisement and subscription revenue in other countries. ETNL has an edge over its competitors by having a low-cost structure, primarily due to its own up-linking facilities. Major cost components pertain to the cost of outsourced programs (primarily acquired from Moomal Productions (Pvt.) Ltd., a related concern of ETNL), cost of in-house programs and personnel costs.
- Going forward, the management is considering diversifying into other media such as radio operations and plans to focus upon international distribution of its programming content, mainly in UAE, USA, UK and India. Meanwhile the management plans to further increase its channel base by launching 2-3 more channels. With expanding business volumes and shared resources for various channels, economies of scale are expected to be achieved through lower fixed costs, thus providing greater flexibility to adjust costs in event of a downturn.
- Although media is a high margin industry, sustainability of margins is challenged by the fast changing industry dynamics and risk of rapid transition in viewership and market standing. Moreover, the cyclical nature of the industry makes it vulnerable to economic downturn. The industry is in a relatively nascent stage with intensifying competition (both locally as well as globally). The lack of established industry norms results in loss of revenue to cable operators due to private advertisement. Scarcity of skilled human resource results in high turnover and retention cost. Increasing encroachment by other forms of new media such as Internet, and likelihood of pricing pressure due to intensifying competition (translating into lower bargaining power), may suppress advertising revenues, going forward. However, ETNL, to date, has successfully withstood these challenges through implementing a viable business strategy.
- In line with the industry trend the human resource base of the company is dominated by young people. However the company has achieved an appropriate blend in its management team by having experienced personnel supervise critical functions.
- The capital structure remains strong with low leveraging (D/E: 45%, end-Dec08). Despite healthy profitability, cash flows from operations have remained suppressed due to increase in working capital requirements, mainly trade debts and un-amortized television program costs.

PROFILE

- ETNL, the first listed media company of Pakistan on the KSE, was incorporated on February 25 2004. Majority shareholding (37.5%) in the company is held by sponsor directors, and JS & Co. Ltd. (18%), an associated concern of ETNL. Financial institutions, mutual funds and general public hold the remaining (44.5%) stake. The 8 member BoD has dominant representation of executive directors, comprising the Chairperson, CEO and a senior executive. Two of the three executive directors are members of the sponsoring family, actively engaged in day-to-day affairs of the company. Three members are independent (from the sponsors as well as from the management) while two are representatives of the associated concern, JS & Co. Ltd.
- The senior management team at ETNL is well-qualified and experienced in the media industry. The CEO and Chairperson, belonging to the sponsoring family, have extensive experience in television production and media marketing.