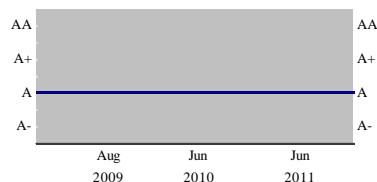


**RATINGS (JUNE 2011)**

**HUM NETWORK LIMITED (HNL)**

	New	Previous
<b>Entity</b>		
Long-Term	A	A
Short-Term	A1	A1

**RATING HISTORY**



**FINANCIAL DATA**

PKR (mln)

	3QFY11	FY10	FY09
Total Assets	1,560	1,487	1,199
Equity	971	834	726
Net Turnover	991	1,284	1,117
Net Income	137	206	241
EBITDA	291	408	412
RoA %	11.9	15.3	21.7
RoE %	18.9	27.3	35.8
FCFO/Gross Interest (x)	6.0	6.4	6.4
Total Debt/ Total Debt +Equity %	21.1	25.4	23.

**ANALYSTS**

Omaira Amjad  
+92 42 35869504  
omaira.amjad@pacra.com

Ahmed Ali Ehsan  
+92 42 35869504  
ahmed.ehsan@pacra.com

**RATING RATIONALE AND KEY RATING DRIVERS**

- The ratings reflect healthy financial profile of HNL emanating from low leveraging, supported by sound coverages. The ratings recognize the established brand name of “Hum TV” (the key revenue driving channel, though it also highlights concentration) in media sector, experienced management team, and sound technological platform of the company. However, the earning stability owing to high competition and volatile nature of the media industry would remain challenging.
- The ratings are dependent upon the company’s ability to maintain its market share while averting deterioration in margins. Any significant debt accumulation either to fund expansion or increase in working capital requirements thereby deteriorating debt service capacity of the company would impact the ratings.

**ASSESSMENT**

- HNL entered the media industry in Jan 2005 with the launch of the company’s first channel, HUM TV, a General Entertainment Channel (GEC). Since then, HNL 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 TV) in short time span. In terms of viewership, Hum TV & Masala TV are top rated amongst GECs. Meanwhile, the company publishes two magazines i) HUMSAY, which provides overall coverage to Pakistan’s media sector, and ii) MASALA MAG, mainly comprising food recipes. These magazines, especially MASALA MAG, have witnessed growing popularity among readers. The company launched radio music channel, HUMARA FM 94.6, during 2009. However, lately it has exited from radio business due to low potential.
- Advertisement revenue, net of agency commissions and discounts, is the primary source of revenue generation for the company. The growth of FMCGs and the telecommunication companies led to an increase in their advertising budgets, which, in turn, contributed to a rise in HNL’s advertising revenues in the past. Lately, the growth in revenue declined (FY10: 15%; FY09: 23%) due to deteriorating economic conditions which resulted in squeeze in advertising budgets by these companies. A significant portion of advertising revenues are attributable to a limited number of HNL’s clients (HUM TV: 69% from top 5 clients; Masala TV: 66%). This has resulted in concentration risk. Apart from advertising revenues, the channels of the network are available via internet streaming. Blockbuster dramas are also available on DVDs. Although revenues arising from this strategy would be modest in the initial phase, it would further strengthen brand awareness and attract viewership both locally and internationally.
- Due to intense competition in media industry the cost of outsourced/in house production of HNL increased significantly in order to maintain market share. This coupled with increase in transmission cost resulted in deteriorating gross margins (FY10: 46%, FY09: 60%). The declining trend of margins was somewhat arrested during 3QFY11 (46%). The cost of production remained high but HNL managed to cut its transmission cost by suspending the operations of the radio channel (around PKR 47 mln). Meanwhile, an increase in operating cost and financial charges kept the net profitability under pressure.
- Going forward, the company will follow cautious approach due to subdued economic conditions prevailing in the country. While, advertising revenues are expected to remain under pressure, HNL would focus on expanding its operations abroad. In this regard the company has established a subsidiary in USA for marketing & sales. Moreover, it plans to expand foot prints of HUM TV & Masala TV in South Africa & Canada. The company intends to increase its revenues by further improving the quality of TV programs, aggressive marketing approach and by introducing new pricing strategies for different time slots. Moreover, HNL is re-evaluating Oye TV, as it failed to achieve profitability due to inability to gain interest of advertisers and limited space availability on cable network.
- Due to rapid expansion, operational risk requires attention. In this regard, the company is implementing Enterprise Resource Planning (ERP) to strengthen control environment. Three modules have been fixed and it is expected that all modules of ERP will be implemented by Dec-2011. Moreover, In order for smooth reporting of financial information, the company has implemented the accounts receivable, accounts payable, fixed asset, cash and general ledger module of Oracle Financials. Going forward, the management intends to integrate the Oracle Financials with ERP system for smooth sailing of operations.
- The company has a low leveraged capital structure, as reflected by its Total Debt to Total Debt +Equity ratio. However, free cash flows from operations have remained suppressed due to increase in working capital requirements as to date, surplus cash is being consumed in working capital. Going forward, the company’s ability to ensure timely realization of trade debts can significantly influence its working capital management and, in turn, its cash flows.

**PROFILE**

- HNL, the first listed media company of Pakistan on the KSE, was incorporated on February 25, 2004. Majority shareholding (40%) in the company is held by sponsor directors, while JS & Co. Ltd. has 14% stake, financial sector 32% and others including individuals hold 14% as on 31 Dec 2010. The eight member BoD has dominant representation of executive directors, comprising the Chairperson, CEO, and a senior executive. To create harmonization in corporate image, company has changed its name to Hum Network Limited from Eye Television Network Limited.
- The senior management team at HNL is well-qualified and experienced in the media industry. The CEO and Chairperson, both belonging to the sponsoring family, have extensive experience in television production and media marketing.