

## TeleNav

TNAV : NASDAQ : US\$8.91

BUY

Target: US\$14.00

Jeff Rath, CFA

1.617.371.3891

jrath@canaccordgenuity.com

David Delleo, CFA

1.617.788.1595

ddelleo@canaccordgenuity.com

## COMPANY STATISTICS:

52-week Range:	7.80 - 9.25
Avg. Daily Vol.:	1,228
Market Cap (M):	US\$373
Shares Out basic (M):	42
LT Debt (M):	0.0
Net Cash /shr:	2.69
Bk Value/Sh:	US\$3.98
FYE:	June
Website:	<a href="http://www.telenav.com/">http://www.telenav.com/</a>

## EARNINGS SUMMARY:

FYE Jun	2009A	2010A	2011E
Revenue (M):	110.9	171.2	215.5
EBITDA (M):	44.7	73.6	76.9
Net income (M):	29.6	41.4	39.9
EPS:	0.57	1.06	0.86

EPS:	Q1	-	0.21A	0.22
	Q2	-	0.27A	0.21
	Q3	-	0.33A	0.22
	Q4	-	0.24A	0.22
Total		0.57	1.06	0.86

## SHARE PRICE PERFORMANCE:



## COMPANY SUMMARY:

TeleNav is a location-based services and Mobile Internet company. Its core product is voice-guided navigation on mobile phones, but the company also develops solutions that support a broad range of location-enhanced applications such as mobile advertising, commerce and social networking. TeleNav provides its solutions through a network of wireless carriers and under its own brand.

All amounts in US\$ unless otherwise noted.

Technology -- Industrial -- Location Technology

## STRONG SUB GROWTH AMID FREE ALTERNATIVES; SPRINT RENEGOTIATION BRINGS OVERHANG; MAINTAIN BUY AND \$14 TARGET

## Investment Recommendation

We are maintaining our BUY recommendation and \$14 target price on TNAV shares and continue to feel that the current share price creates an attractive entry point/opportunity for investors, as many additional upside opportunities are not included in management's financial projections.

## Investment Highlights

- Revenue of \$49.5M vs. CG and consensus estimates of \$47M.
- EPS of \$0.24 vs. CG of \$0.24 and consensus of \$0.25.
- Solid paying sub growth amid a difficult environment which includes free turn-by-turn alternatives.
- TNAV has begun to generate revenue from mobile advertising.
- The company is currently in negotiations with Sprint for potential amendments with its current contract. Management had little color to add.

## Valuation

Our \$14 target price is based on 7x our 2011 EV/EBITDA estimate of \$77M.

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## EARNINGS SUMMARY

Figure 1: Earnings summary

FYE June 30 (US\$000s, except per share)	FQ4/10A	FQ4/10E	Difference	FQ3/10A	Q/Q Chg %	FQ4/09A	Y/Y Chg %
Revenue	49,510	47,026	2,484.0	45,101	10%	34,254	45%
Gross margin	83.1%	81.2%	0.0	84.1%	-1%	81.1%	3%
EBITDA	19,465	18,840	624.6	20,324	-4%	14,387	35%
Operating margin	35.9%	36.0%	-0.1%	42.2%	-15%	39.8%	-10%
Net income	10,612	10,208	404.2	12,540	-15%	10,333	3%
EPS (fd)	0.24	0.24	(0.0)	0.33	-28%	0.28	-15%
Paying Subs	16,100	15,900	200.0	14,545	11%	9,500	69%
ARPU	1.03	0.98	0.1	1.02	1%	1.11	-7%
Consensus revenue		46,950					
Consensus EPS		0.25					

Source: Company reports, Thomson ONE and Canaccord Genuity

- Paying subs increased to 16,100 from 14,545 last quarter, representing 69% y/y and 11% q/q growth. This shows solid growth amid an environment of free turn-by-turn competitor offerings.
- ARPU of \$1.03 vs. \$1.11 last year and \$1.02 last quarter. The decline was expected due to the shift in end-user growth to bundled offerings.
- TNAV was selected by U.S. Cellular, the nation's sixth largest wireless carrier, as a GPS navigation partner just after the quarter closed. As part of the deal, TNAV's turn-by-turn offering will be bundled with the consumer's wireless data plan and essentially offered for free to data plan subscribers. Although this results in lower ARPU for TNAV, it drives a higher subscription base and, ultimately, more revenue.
- The company is currently in negotiations with Sprint for potential amendments with its current contract. TNAV anticipates any extended agreement would result in ARPU declines and reductions in total revenue from Sprint for bundled services, but an increase in subs. This was anticipated, and the last time the contract was renegotiated, the result was an increase in sub growth and higher total revenue in the ensuing period. Prior to this negotiation, TNAV was the exclusive provider of Sprint Navigation until December 31, 2010. Management has consistently said it will attempt to renegotiate major contracts before their renewals.
- Cash and equivalents at the end of the quarter was \$113M, up from \$46M in FQ3/10 (pre-IPO). Net cash per share increased to \$2.69 from \$1.21 last quarter.
- FQ1/11 revenue/EPS guidance \$50M/\$0.22 vs. consensus estimates of \$49.8M/\$0.21.

## ESTIMATES

Our FQ1/11 and F2011 estimates remain relatively unchanged. Our F2011 EPS estimate goes to \$0.86 from \$0.87 on assumptions for a slightly higher tax rate than previously modeled.

**Figure 2: Estimate revisions**

FYE June 30 (US\$000s, except per share)	Original FQ1/11E	Revised FQ1/11E	Original F2011E	Revised F2011E
Total revenue	50,385	50,385	215,488	215,488
<i>y/y growth</i>	39.8%	39.8%	27.8%	25.9%
Gross Margin	80.1%	80.1%	77.6%	77.6%
EBITDA	18,891	18,992	76,786	76,887
<i>margin</i>	37.5%	37.7%	35.6%	35.7%
Operating Margin	33.1%	33.3%	31.0%	31.1%
Net Income	10,009	9,934	40,267	39,900
EPS (FD)	0.22	0.22	0.87	0.86
<i>y/y growth</i>	1.8%	1.1%	-17.1%	-18.9%
Paying Subs	16,800	16,800	18,000	18,000
ARPU	\$0.97	\$0.97	\$0.97	\$0.97
Consensus revenue	49,750		213,530	
Consensus EPS	0.21		0.87	

Source: Thomson ONE and Canaccord Genuity

## VALUATION AND RECOMMENDATION

Our \$14 target price is based on 7x our 2011 EV/EBITDA estimate of \$77M. We believe this represents a very conservative view of what the shares are worth and, from a relative valuation standpoint, think the stock can trade into the high-teens with continued execution in the coming quarters.

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(as of 2 July 2010)

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	695	100.0%	

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Company	Disclosure
TeleNav	1A, 2, 3, 5, 7

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