

29 October 2010

TeleNav

Reuters: **TNAV.OQ** Bloomberg: **TNAV US** Exchange: **NMS** Ticker: **TNAV**

FYQ1 Results

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Telenav reported 1QFY10 revenue of \$51 million ahead of our estimate of \$50 million and consensus of \$49 million; pro-forma EPS of \$0.29 came in well ahead of our estimate of \$0.20 and consensus of \$0.22. The company guided earnings \$0.15 to \$0.17 for FYQ2, ahead of the street expectations of \$0.13, and bracketing our expectations of \$0.17. We remain cautious on the company as it transitions to new revenue models.

Good quarter fueled by growth in key areas

The company added 1.6 million subscribers to its customer base and now boasts a total customer count of 17.7 million. Additionally, the company maintained margins despite experiencing a dip in ARPU. This demonstrates the SaaS-like operating leverage their model is capable of, given sufficient revenue streams.

Some progress in new model

In September the company updated its navigation-based mobile advertising platform and is starting to see revenue growth in advertising. In addition, the company continues to leverage its core customer area to grow revenue from premium navigation, automotive and enterprise LBS. However, these services still represent just over 5% of total revenues.

Lowering price target from \$9 to \$5 and maintaining Hold

We have valued Telenav using a discounted cash flow analysis using a 2% perpetual growth rate in line with long-term industry growth and a 15% discount rate (using a 5.5% risk free rate, a beta of 1.4 and risk premium of 7%). Downside risks include the threat of continued competition from free navigation providers such as Google. Upside risks include the potential for increased ramp in premium services and a better than advertising results from Sprint customers in 2011.

Forecasts and ratios

Year End Jun 30	2010A	2011E
1Q EPS ¹	0.02	0.29A
2Q EPS	0.23	0.17
3Q EPS	0.31	0.16
4Q EPS	0.31	0.13
FY EPS (USD)	1.10	0.75
OLD FY EPS (USD)	0.28	0.76
% Change	292.6%	-1.6%
P/E (x)	7.8	6.5
Revenue (USDm)	171.2	190.1

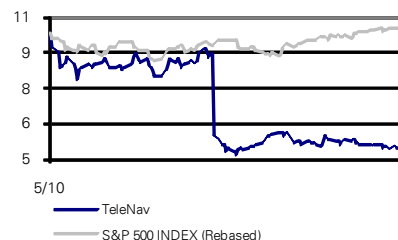
Source: Deutsche Bank estimates, company data

¹ Includes the impact of FAS123R requiring the expensing of stock options.**Forecast Change****Hold**

Price at 28 Oct 2010 (USD)	4.90
Price target	5.00
52-week range	9.80 - 4.68

Key changes

Price target	9.00 to 5.00	↓	-44.4%
EPS (USD)	0.76 to 0.75	↓	-1.6%
Revenue (USDm)	184.9 to 190.1	↑	2.8%

Price/price relative

Performance (%)	1m	3m	12m
Absolute	-6.8	-44.4	-
S&P 500 INDEX	3.1	7.0	13.5

Stock & option liquidity data

Market Cap (USDm)	209.7
Shares outstanding (m)	42.8
Free float (%)	100
Volume (28 Oct 2010)	97,607
Option volume (und. shrs., 1M avg.)	-

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Model updated: 29 October 2010

Running the numbers

North America

United States

Wireless Equipment

TeleNav

Reuters: TNAV.OQ

Bloomberg: TNAV US

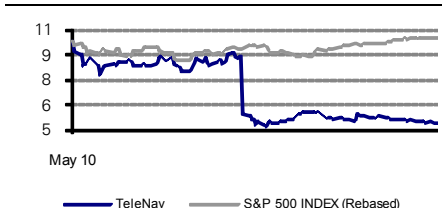
Hold

Price (28 Oct 10)	USD 4.90
Target price	USD 5.00
52-week Range	USD 4.68 - 9.80
Market Cap (m)	USDm 210 EURm 151

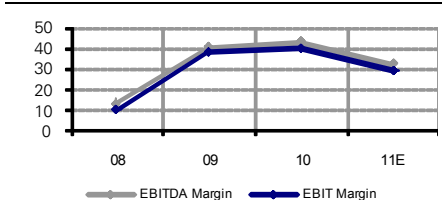
Company Profile

TeleNav is a provider of location based services, or LBS, on mobile phones. Their LBS solutions provide consumers and enterprises with location specific, real time and personalized features and functions. Through their hosted service delivery model, they provide solutions through the networks of leading wireless carriers in the United States, including Sprint Nextel Corporation, or Sprint, and AT&T Inc., or AT&T, as well as through certain carriers.

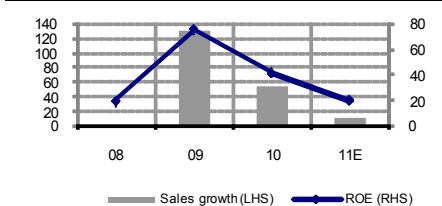
Price Performance



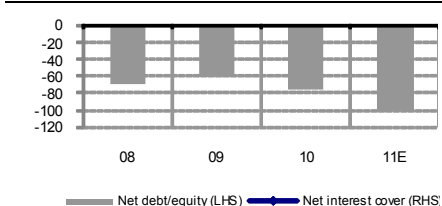
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Jun

Financial Summary

	2008	2009	2010	2011E
DB EPS (USD)	0.02	0.07	1.10	0.75
Reported EPS (USD)	0.01	0.09	1.34	0.71
DPS (USD)	0.00	0.00	0.00	0.00
BVPS (USD)	0.18	0.40	9.57	4.32

Valuation Metrics

Price/Sales (x)	nm	nm	0.8	1.1
P/E (DB) (x)	na	na	7.8	6.5
P/E (Reported) (x)	na	na	6.4	6.9
P/BV (x)	0.0	0.0	0.9	1.1
FCF yield (%)	na	na	26.0	36.2
Dividend yield (%)	na	na	0.0	0.0
EV/Sales	nm	nm	0.1	0.1
EV/EBITDA	nm	nm	0.3	0.3
EV/EBIT	nm	nm	0.3	0.4

Income Statement (USDm)

Sales	48	111	171	190
EBITDA	6	45	74	62
EBIT	5	42	68	55
Pre-tax profit	5	42	68	56
Net income	5	30	41	32

Cash Flow (USDm)

Cash flow from operations	0	24	44	82
Net Capex	-2	-8	-10	-6
Free cash flow	-2	16	35	76
Equity raised/(bought back)	0	0	43	0
Dividends paid	0	0	0	0
Net inc/(dec) in borrowings	0	0	0	0
Other investing/financing cash flows	0	0	2	-83
Net cash flow	-2	16	80	-7
Change in working capital	-11	-9	-13	11

Balance Sheet (USDm)

Cash and cash equivalents	17	33	113	186
Property, plant & equipment	3	7	10	8
Goodwill	0	0	0	0
Other assets	16	32	51	45
Total assets	36	72	174	238
Debt	0	0	0	0
Other liabilities	12	17	25	54
Total liabilities	12	17	25	54
Total shareholders' equity	24	55	149	185
Net debt	-17	-33	-113	-186

Key Company Metrics

Sales growth (%)	nm	130.7	54.4	11.0
DB EPS growth (%)	na	333.8	1,526.3	-32.2
Payout ratio (%)	0.0	0.0	0.0	0.0
EBITDA Margin (%)	13.1	40.3	43.0	32.5
EBIT Margin (%)	9.9	38.1	40.0	29.1
ROE (%)	18.9	74.8	40.6	19.3
Net debt/equity (%)	-69.1	-60.5	-75.7	-100.8
Net interest cover (x)	nm	nm	nm	nm

DuPont Analysis

EBIT margin (%)	9.9	38.1	40.0	29.1
x Asset turnover (x)	1.3	2.0	1.4	0.9
x Financial cost ratio (x)	1.0	1.0	1.0	1.0
x Tax and other effects (x)	1.0	0.7	0.6	0.6
= ROA (post tax) (%)	12.8	54.7	33.7	15.6
x Financial leverage (x)	1.5	1.4	1.2	1.2
= ROE (%)	18.9	74.8	40.6	19.3
annual growth (%)	na	296.4	-45.7	-52.6
x NTA/share (avg) (x)	0.1	0.1	3.3	3.7
= Reported EPS	0.01	0.09	1.34	0.71
annual growth (%)	na	523.3	1,408.6	-47.5

Source: Company data, Deutsche Bank estimates

Telenav reported 1QFY10 revenue of \$51.1 million ahead of our estimate of \$50.0 million and consensus of \$48.6 million; pro-forma EPS of \$0.29 came in well ahead of our estimate of \$0.20 and consensus of \$0.22.

Telenav's main customers, Sprint and AT&T, respectively represented 51% and 35% of the revenue. The new Sprint contract took effect this quarter and will represent an amount less than the previous contract. Under this, Sprint pays Telenav a fixed sum regardless of subscriber count but the contract gives both parties incentives to add premium services. The AT&T contract is a revenue sharing agreement and will be up for renegotiation in March 2011. The company said, at this time, they meet with AT&T regularly and do not expect the terms will change.

In September the company updated its navigation-based mobile advertising platform and are starting to see some revenue growth in this area. In addition, the company continues to leverage its core customer area to grow revenue from premium navigation, automotive and enterprise LBS. However, these services still represent just over 5% of total revenues.

Guidance

The company guided earnings of \$0.15 to \$0.17 per share for FYQ2, ahead of the street expectations of \$0.13 and brackets our expectation of \$0.17. The company also revised its full year guidance, saying revenue would be between \$187 and \$192 million and non-GAAP earnings would be between \$0.70 and \$0.78 per share. This is above the street's revenue estimate of \$183 million and our estimate of \$185 million. The EPS estimate is above the street estimate of \$0.62 and brackets our estimate of \$0.76 per share.

Financials

The company experienced a drop of 14% in average revenue per customer (ARPU) to \$0.94. However, they added 1.6 million subscribers and the total customer base now comes to 17.7 million. Cash and cash equivalents increased by \$18.2 million, giving the company a total of \$131.1 million.

Conclusion

This is the kind of quarter the Telenav's business model should be able to deliver consistently. Unfortunately, the changing nature of their relationship makes such expectations unreliable. While the company did a job of beating expectations, we have little confidence that they can keep up this pace indefinitely. Under their new contract, Sprint will pay Telenav a fixed fee rather than on a per subscriber basis. Next quarter, with a full quarter of contribution, we should have a clearer picture of just how much Sprint is paying them. Regardless, we think some factors are already clear. The average revenue Telenav generates is set to decline at a faster pace than we would have expected six months ago. ARPU is, of course, only part of the story, and total revenue looks set to continue growing for the next several quarters.

Beyond that, however, we enter somewhat uncharted territory. By the middle of FY12 (2HCY11) the contribution from Sprint will likely be a smaller share of Telenav's revenue. The difficulty will be determining what can take its place. While we are encouraged by the company's progress in rolling out its mobile ad platform, our sense is that this will still take many years before it can accelerate revenue growth. In their latest quarter, we saw encouraging signs in Telenav's numbers and in management's commentary. Their mobile ad platform is growing. Hyper-local ads, location-based services, and mobile couponing are all very hot subjects in the Valley and venture capital communities. We are comfortable with the idea that there is a large opportunity here and that Telenav has the potential to claim some of it. Unfortunately, the timing is opaque. We think it is likely that before this new leg of revenue growth can scale the traditional carrier businesses will have slowed under new pricing regimes. This will make for several quarters of rocky transition.

So while we are encouraged by long-term trends, we remain cautious on our outlook for the next several quarters. We reiterate our Hold rating.

We are lowering our estimates as below and are lowering our price target to reflect the latest guidance and increased risk profile of the company.

2Q11 was \$45m and \$0.17, is \$47m and \$0.17
3Q11 was \$48m and \$0.19, is \$47m and \$0.16
FY11 was \$185m and \$0.76, is \$190m and \$0.75
FY12 was \$207m and \$0.89, is \$193m and \$0.65
CY10 was \$182m and \$0.99, is \$193m and \$1.07
CY11 was \$196m and \$0.79, is \$183 and \$0.51

Risks & Valuation

We are lowering our price from \$9 to \$5. Our valuation is based on a discounted cash flow analysis using a 2% perpetual growth rate in line with long-term industry growth and a 15% discount rate (using a 5.5% risk free rate, a beta of 1.4 and risk premium of 7%).

We see two primary sources of downside risk for Telenav. The first is their dependence on a small number of carrier customers for their revenue. Carriers are known to be very demanding customers. While we believe Telenav's relationship with its carrier partners is strong, the risk exists that these carriers source navigation elsewhere or more likely pressure Telenav to bring down its prices. A second, related risk is competition from OTT navigation providers. The most significant of these are deep-pocketed players in the mobile and Internet landscape including Google, Nokia and Microsoft. These three all offer comparable navigation services bundled with their mobile operating systems (OS) at no cost to carriers or consumers. We think Telenav's relationship with the carriers shield them to some degree from this competition, but long-term expect pricing to converge on these \$0 offerings. The chief upside risk is that the renegotiation with Sprint resolves with no change in earnings and the company returns to its prior growth trajectory. The company also has the ability to win new customers or see major customers such as AT&T switch to bundled pricing plans which would drive earnings above our estimates.

Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
TeleNav	TNAV.OQ	4.90 (USD) 28 Oct 10	1,2

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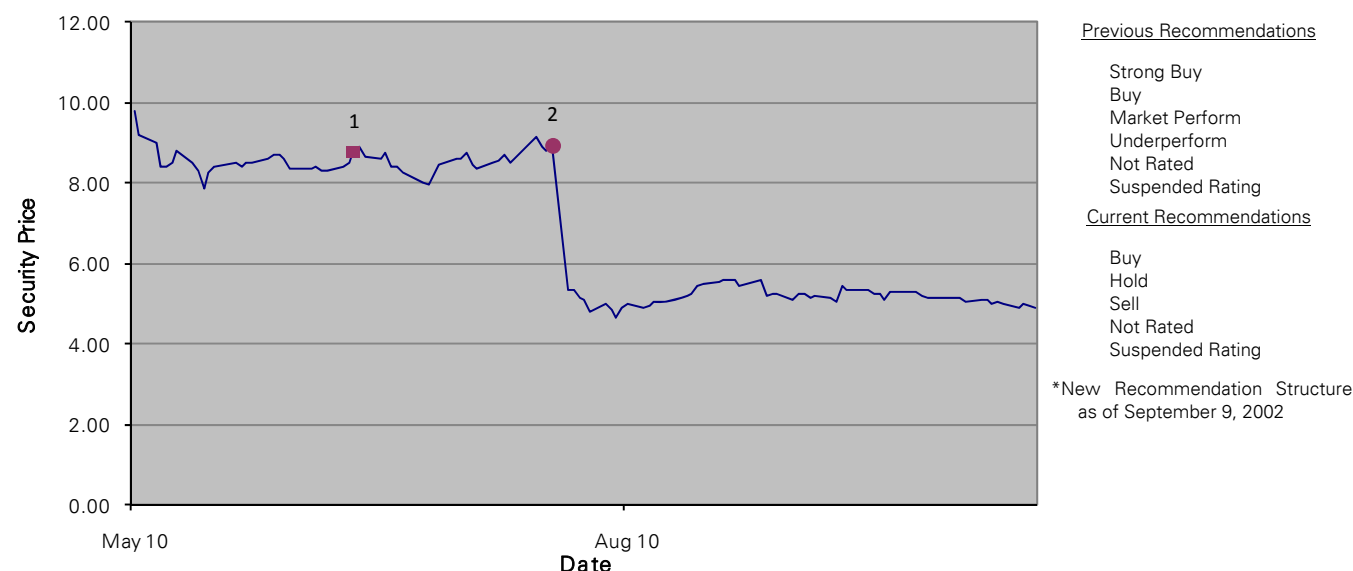
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Historical recommendations and target price: TeleNav (TNAV.OQ)

(as of 10/28/2010)



1. 6/23/2010: Buy, Target Price Change USD12.00

2. 7/30/2010: Downgrade to Hold, Target Price Change USD9.00

Equity rating key**Equity rating dispersion and banking relationships**

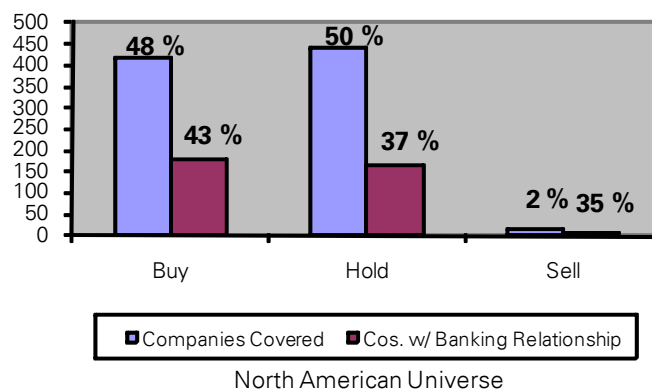
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