

TeleNav

TNAV : NASDAQ : US\$5.06

BUY**Target: US\$8.00 ↓****Jeff Rath, CFA**

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COMPANY STATISTICS:

52-week Range:	4.65 – 11.48
Avg. Daily Vol (000s):	213
Market Cap (M):	212
Shares Out basic (M):	42
LT Debt (M):	0.0
Net Cash /shr:	2.69
Bk Value/Sh:	US\$3.98
FYE:	June
Website:	http://www.telenav.com/

EARNINGS SUMMARY:

EXTENDED SUMMARY				
FYE Jun		2009A	2010A	2011E
Revenue (M):		110.9	171.2	182.0
EBITDA (M):		44.7	73.6	52.6
Net income (M):		29.6	41.4	25.4
EPS:		0.57	1.06	0.55
EPS:	Q1	--	0.21	0.22
	Q2	--	0.27	0.11
	Q3	--	0.33	0.11
	Q4	--	0.24	0.11
Total		0.57	1.06	0.55

SHARE PRICE PERFORMANCE:



COMPANY DESCRIPTION:

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

SPRINT CONTRACT AMENDED, UPSIDE OPPORTUNITIES EXIST; MAINTAIN BUY, TARGET GOES TO \$8

Investment recommendation

We are lowering our target price to \$8 from \$14 after TeleNav revealed the results of its renegotiation with Sprint. Though price concessions were inevitable, we believe that removing the uncertainty around the magnitude has created a floor for the stock and we see upside opportunities from mobile advertising and commerce going forward.

Investment highlights

- The term of the agreement was extended for one year with TNAV's preferred provider status now expiring two years later than originally scheduled.
- TNAV's revenue-sharing portion for certain subscribers was increased. Upside opportunities within the installed base exist and now include prepaid subscribers.
- The AT&T contract, up for renewal in 2011, is primarily a MRC model rather than a bundle, so the Sprint renegotiation does not necessarily set a precedent going forward.
- Management reiterated FQ1/11 guidance and provided full fiscal year 2011 guidance.

Valuation

Our new \$8 target price implies a 5x EV/EBITDA multiple on our 2011 EBITDA estimate of \$53M. Maintain BUY.

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SPRINT, TELEATLAS CONTRACTS AMENDED

TeleNav finalized renegotiations with Sprint last night, and while price concessions were inevitable, the new contract terms provide upside opportunities from mobile advertising and commerce going forward, in our opinion. Additionally, we believe settlement of the renegotiation removes uncertainty around the name and puts a floor under the stock. Inevitably, the next question becomes “What about the upcoming contract expiration with AT&T?” but that contract employs a monthly recurring charge (MRC) model rather than the bundle model utilized by Sprint, so the Sprint renegotiation does not necessarily set a precedent for that contract going forward. Key points under the new contract are as follows:

- Term of the agreement extended to December 31, 2012 from December 31, 2011. Sprint’s right to terminate without caused changed to June 30, 2012 from December 31, 2010.
- TeleNav will be Sprint’s preferred supplier of navigation through December 31, 2012 (previously December 31, 2010) and TeleNav branded navigation services will replace the Sprint brand as part of the bundled offering.
- Bundle opportunities will be expanded to include Sprint’s prepaid subscriber base (Boost and Virgin; approximately 10M subs).
- TeleNav will receive a guaranteed annual fixed fee from Sprint for navigation applications provided to subscribers in bundles which will change from year to year over the contract period. TeleNav will recognize revenue from the fees monthly on a straight-line basis over the term of the agreement.
- TeleNav’s portion of the revenue sharing arrangement for monthly recurring charge navigation subscribers, enterprise LBS subscribers and revenue from mobile commerce services was increased.
- TeleNav will pay TeleAtlas fees related to navigation services for Sprint’s bundles as a percentage of fees collected from Sprint for basic navigation services and from mobile advertising and mobile commerce revenue generated going forward versus the previous monthly fee per user or per transaction.
- The term of the agreement remains unchanged and expires in July 2014. Financial terms with respect to Sprint bundled offers will expire in concert with the expiration of TeleNav’s agreement with Sprint for these services.
- Amendments to the Sprint and TeleAtlas agreements are retroactively effective as of September 1, 2010 and August 1, 2010, respectively.

ESTIMATES

Management reiterated its previous FQ1/11 guidance and provided guidance for F2011. Management expects F2011 revenue/EPS of \$180-\$185M/\$0.50-\$0.55. Our new estimates are \$182M/\$0.55.

Figure 2: Estimate revisions

FYE June 30 (US\$000s, except per share)	Original F2011E	Revised F2011E
Total revenue	215,488	182,008
<i>y/y growth</i>	25.9%	6.3%
Gross Margin	77.6%	76.3%
EBITDA	76,887	52,611
<i>margin</i>	35.7%	28.9%
Operating Margin	31.1%	23.4%
Net Income	39,900	25,384
EPS (FD)	0.86	0.55
<i>y/y growth</i>	-18.9%	-48.4%
Paying Subs	18,000	18,000
ARPU	\$0.97	\$0.81
Consensus revenue	206,100	
Consensus EPS	0.84	

Source: Thomson ONE and Canaccord Genuity

VALUATION AND RECOMMENDATION

Our new \$8 target price implies a 5x EV/EBITDA multiple on our 2011 EBITDA estimate of \$53M. We believe that removing the uncertainty around the magnitude has created a floor for the stock and we see upside opportunities from mobile advertising and commerce going forward. We maintain our BUY recommendation.

INVESTMENT RISKS

Investment risks include, but are not limited to, customer concentration, competition, scalability, intellectual property and regulation.

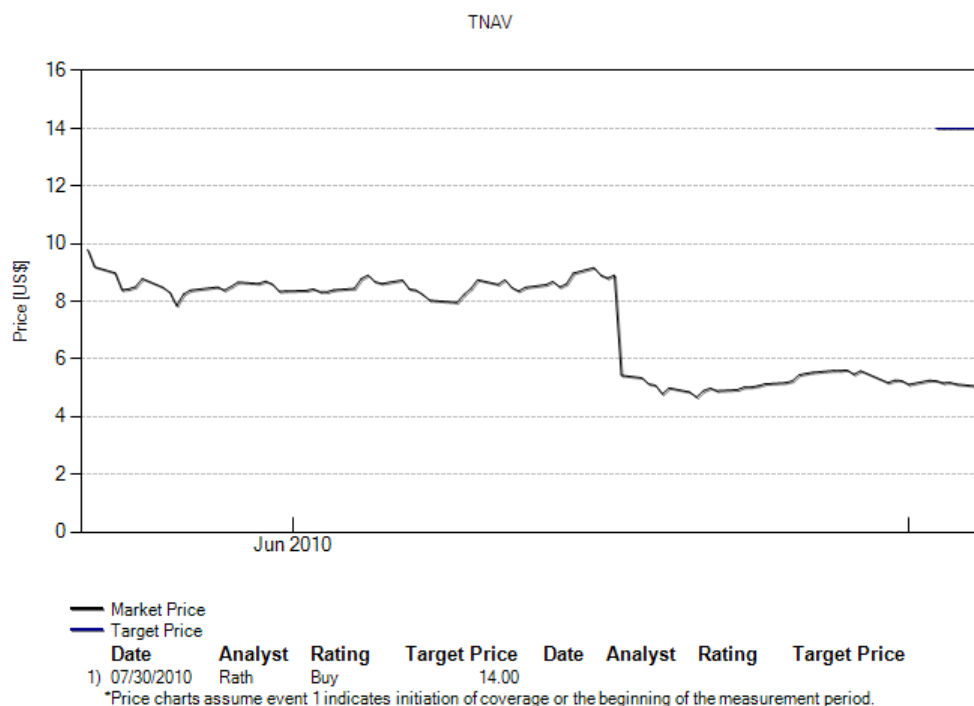
21 September 2010

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Price Chart:***Distribution of Ratings:**

Global Stock Ratings
(as of 1 September 2010)

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	#	%	#	%
Buy	417	60.7%	37	37.4%
Speculative Buy	78	11.4%	61	61.5%
Hold	182	26.5%	21	20.9%
Sell	10	1.5%	0	0.0%
	687	100.0%		

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TeleNav	1A, 2, 3, 5, 7
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