



29 April 2011

TeleNav

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

A good quarter, raising price target to \$11

Jonathan Goldberg, CFA **Tom Ernst Jr**

Research Analyst

(+1) 415 617-4259

jonathan.goldberg@db.com

Research Analyst

() 800 592-0290

thomas.ernst@db.com

Kip Clifton

Research Associate

(+1) 415 617-4247

kip.clifton@db.com

Good results and guidance

Telenav reported Q4 results of \$57 million, including a one-time payment from Ford of \$6 million. Excluding this the company still beat our estimate and consensus of \$49 million. Pro-forma EPS of \$0.27 also beat expectations of \$0.18. The company continues to demonstrate steady growth and operating leverage of its SAAS revenue model. However, we remain cautious about trends affecting the navigation market particularly in regards to carrier ordering trends. We reiterate our Hold rating.

Growth in all segments, with non-carrier businesses growing

The company saw better than expected subscriber growth and further diversification away from AT&T and Sprint. The two combined contributed only 70% of revenue in the quarter. More encouraging, the non-carrier business reached 19% of revenue, stripping out the Ford payment this figure stood at 8%, and the company continues to believe this can reach 13% by the end of FY12. The company continues to build its advertising business expanding its work with ad networks and its own internal direct sales effort.

New growth legs are beginning to gather strength

The challenge for Telenav remains its ability to regain investor confidence in its long-term potential. This process will take time as the market waits for meaningful contribution from non-carrier businesses. As such, we reiterate our Hold rating.

Raising estimates and price target from \$8 to \$11, maintain Hold rating

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	2012E
1Q EPS ¹	0.02	0.29A	0.21
2Q EPS	0.23	0.24A	0.20
3Q EPS	0.31	0.27A	0.27
4Q EPS	0.31	0.20	0.28
FY EPS (USD)	1.10	0.99	0.97
OLD FY EPS (USD)	1.10	0.88	0.81
% Change	0.0%	12.9%	19.3%
P/E (x)	7.8	11.6	11.9
DPS (USD)	0.00	0.00	0.00
Dividend yield (%)	0.0	0.0	0.0
Revenue (USDm)	171.2	210.7	241.9

Source: Deutsche Bank estimates, company data

¹ Includes the impact of FAS123R requiring the expensing of stock options.² This is the 2nd footnote³ This is the 3rd footnote

Forecast Change

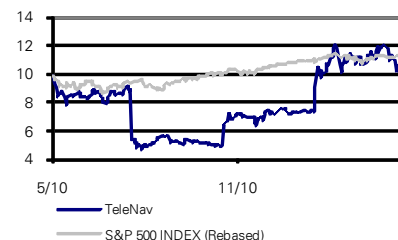
Hold

Price at 28 Apr 2011 (USD)	11.47
Price target	11.00
52-week range	12.07 - 4.68

Key changes

Price target	8.00 to 11.00	↑	37.5%
EPS (USD)	0.88 to 0.99	↑	12.9%
Revenue (USDm)	197.0 to 210.7	↑	7.0%

Price/price relative



Performance (%)	1m	3m	12m
Absolute	1.9	28.2	-
S&P 500 INDEX	3.8	6.6	14.2

Stock & option liquidity data

Market Cap (USDm)	483.3
Shares outstanding (m)	42.1
Free float (%)	100
Volume (28 Apr 2011)	53,991
Option volume (und. shrs., 1M avg.)	-

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Model updated: 29 April 2011

Running the numbers**North America****United States****Wireless Equipment****TeleNav**

Reuters: TNAV.OQ

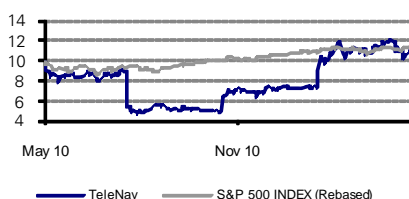
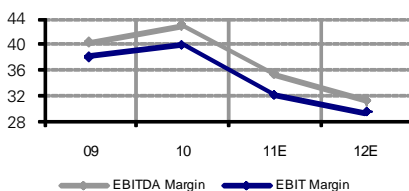
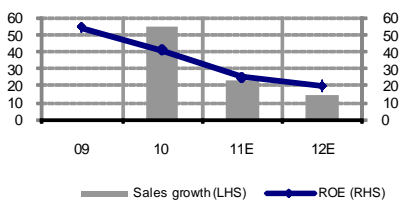
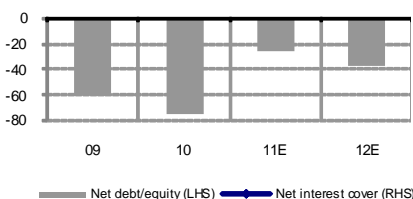
Bloomberg: TNAV US

Hold

Price (28 Apr 11)	USD 11.47
Target price	USD 11.00
52-week Range	USD 4.68 - 12.07
Market Cap (m)	USDm 483
	EURm 326

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**

Jonathan Goldberg, CFA

+1 415 617-4259

jonathan.goldberg@db.com

Fiscal year end 30-Jun

Financial Summary

	2009	2010	2011E	2012E
DB EPS (USD)	0.07	1.10	0.99	0.97
Reported EPS (USD)	0.09	1.34	0.93	0.90
DPS (USD)	0.00	0.00	0.00	0.00
BVPS (USD)	0.40	9.57	4.44	5.44

Valuation Metrics

Price/Sales (x)	nm	0.8	2.3	2.1
P/E (DB) (x)	na	7.8	11.6	11.9
P/E (Reported) (x)	na	6.4	12.4	12.8
P/BV (x)	0.0	0.9	2.6	2.1
FCF yield (%)	na	26.0	11.9	9.3
Dividend yield (%)	na	0.0	0.0	0.0
EV/Sales	nm	0.1	1.3	1.0
EV/EBITDA	nm	0.3	3.5	3.1
EV/EBIT	nm	0.3	3.9	3.3

Income Statement (USDm)

Sales	111	171	211	242
EBITDA	45	74	75	76
EBIT	42	68	68	71
Pre-tax profit	42	68	69	72
Net income	30	41	42	42

Cash Flow (USDm)

Cash flow from operations	24	44	64	51
Net Capex	-8	-10	-6	-5
Free cash flow	16	35	57	46
Equity raised/(bought back)	0	43	-2	0
Dividends paid	0	0	0	0
Net inc/(dec) in borrowings	0	0	0	0
Other investing/financing cash flows	0	2	-120	-4
Net cash flow	16	80	-65	42
Change in working capital	-9	-13	6	-6

Balance Sheet (USDm)

Cash and cash equivalents	33	113	47	89
Property, plant & equipment	7	10	8	4
Goodwill	0	0	0	0
Other assets	32	51	220	231
Total assets	72	174	275	324
Debt	0	0	0	0
Other liabilities	17	25	88	88
Total liabilities	17	25	88	88
Total shareholders' equity	55	149	187	236
Net debt	-33	-113	-47	-89

Key Company Metrics

Sales growth (%)	nm	54.4	23.1	14.8
DB EPS growth (%)	na	1,526.3	-10.1	-2.6
Payout ratio (%)	0.0	0.0	0.0	0.0
EBITDA Margin (%)	40.3	43.0	35.4	31.3
EBIT Margin (%)	38.1	40.0	32.1	29.4
ROE (%)	54.1	40.6	24.9	19.8
Net debt/equity (%)	-60.5	-75.7	-25.1	-37.7
Net interest cover (x)	nm	nm	nm	nm

DuPont Analysis

EBIT margin (%)	38.1	40.0	32.1	29.4
x Asset turnover (x)	1.5	1.4	0.9	0.8
x Financial cost ratio (x)	1.0	1.0	1.0	1.0
x Tax and other effects (x)	0.7	0.6	0.6	0.6
= ROA (post tax) (%)	41.0	33.7	18.7	14.0
x Financial leverage (x)	1.3	1.2	1.3	1.4
= ROE (%)	54.1	40.6	24.9	19.8
annual growth (%)	na	-24.9	-38.7	-20.6
x NTA/share (avg)	0.2	3.3	3.7	4.5
= Reported EPS	0.09	1.34	0.93	0.90
annual growth (%)	na	1,408.6	-31.0	-3.4

Source: Company data, Deutsche Bank estimates

Good results and guidance

Telenav reported Q4 results of \$57 million, including a one-time payment from Ford of \$6 million. Excluding this the company still beat our estimate and consensus of \$49 million. Pro-forma EPS of \$0.27 also beat expectations of \$0.18. The company continues to demonstrate steady growth and operating leverage of its SAAS revenue model. However, we remain cautious about trends affecting the navigation market particularly in regards to carrier ordering trends. We reiterate our Hold rating.

Growth in all segments, with non-carrier businesses growing

The company saw better than expected subscriber growth and further diversification away from AT&T and Sprint. The two combined contributed only 70% of revenue in the quarter, down from over 90% in the past. This in part reflects new payment terms from Sprint. More encouraging, the non-carrier business reached 19% of revenue, stripping out the Ford payment this figure stood at 8%, and the company continues to believe this can reach 13% by the end of FY12. The company continues to build its advertising business expanding its work with ad networks and its own internal direct sales effort.

New growth legs are beginning to gather strength

We view the company's long-term prospects as being built around consumer rather than carrier-oriented businesses. They are continuing to make progress on the various growth initiatives. In China, they have finally launched nationwide service on China Mobile's network. This opportunity will take some time to mature, but the sheer size of the installed base holds promise, and the move to national availability is an important milestone. The company's ad business continues to gain pace, as noted above. This could eventually become the major engine of the company's growth, however the mobile ad market is in very early stages of discovery. Finally, we believe the company is well positioned to compete in the shifting auto OEM landscape. They are already deep into their partnership with Ford. We believe that over the next 12 months other OEMs will expand their navigation partnerships. For instance, we believe GM is working to revamp its OnStar offering. While we have no reason to believe that Telenav has won any such business, we think they are a strong competitor in the space.

The challenge for Telenav remains its ability to regain investor confidence in its long-term potential. This process will take some time as the market waits for more meaningful contribution from non-carrier businesses. As such, we reiterate our Hold rating.

Raising price target from \$8 to \$11 to reflect revised estimates.

We are raising our numbers as below.

4Q11 was \$49m and \$0.17, is \$54m and \$0.20
 1Q12 was \$49m and \$0.17, is \$56m and \$0.26
 FY11 was \$197m and \$0.88, is \$210m and \$0.99
 FY12 was \$208m and \$0.81, is \$241m and \$0.97
 CY11 was \$196m and \$0.69, is \$225m and \$0.88
 CY12 was \$223m and \$0.97, is \$263m and \$1.12

Risks & Valuation

We are raising our price target from \$8 to \$11 in line with our revised estimates. 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. We would also see upside risk should the company's mobile ad platform take off sooner than expected.

Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
TeleNav	TNAV.OQ	11.47 (USD) 28 Apr 11	2

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

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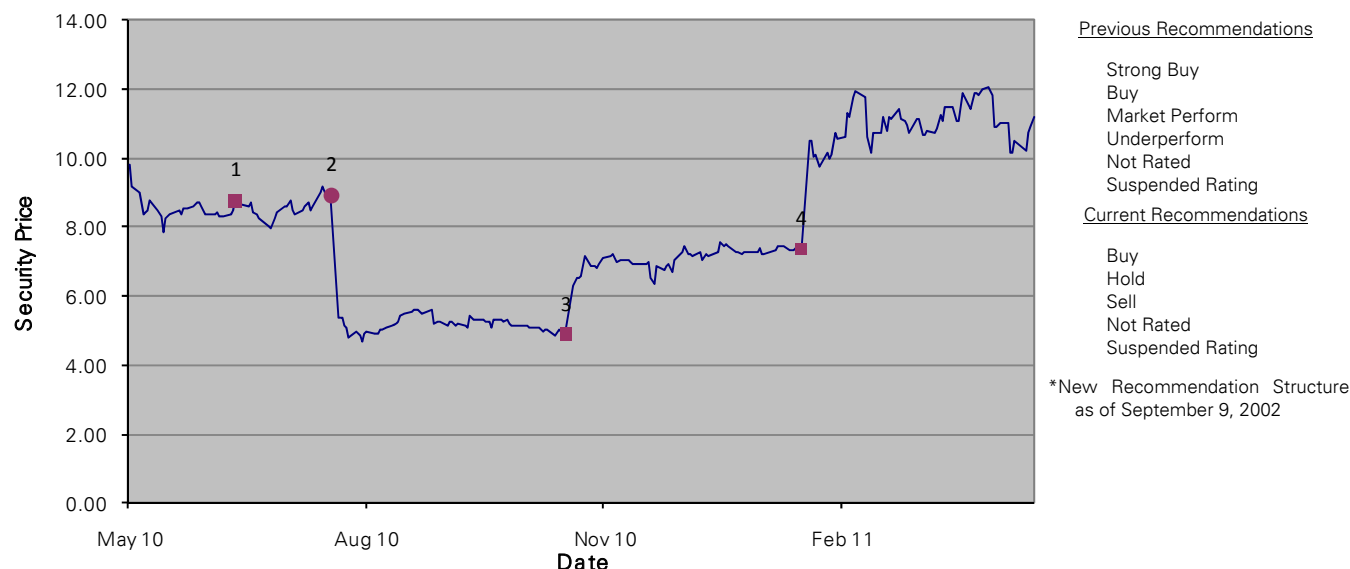
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Historical recommendations and target price: TeleNav (TNAV.OQ)

(as of 4/28/2011)



1.	6/23/2010:	Buy, Target Price Change USD12.00	3.	10/29/2010:	Hold, Target Price Change USD5.00
2.	7/30/2010:	Downgrade to Hold, Target Price Change USD9.00	4.	1/28/2011:	Hold, Target Price Change USD8.00

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

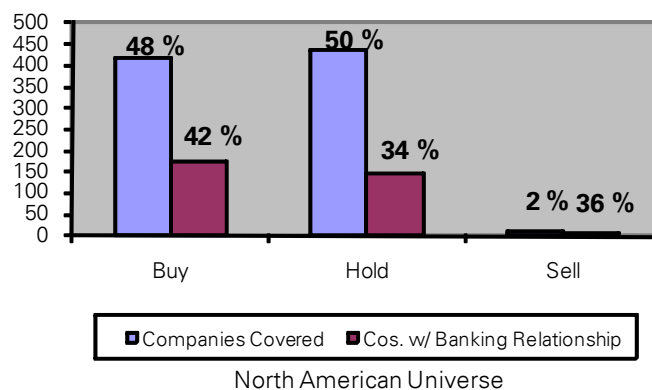
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Deutsche Bank Securities Inc.

North American locations

Deutsche Bank Securities Inc.

60 Wall Street
New York, NY 10005
Tel: (212) 250 2500

Deutsche Bank Securities Inc.

One International Place
12th Floor
Boston, MA 02110
United States of America
Tel: (1) 617 217 6100

Deutsche Bank Securities Inc.

222 South Riverside Plaza
30th Floor
Chicago, IL 60606
Tel: (312) 537-3758

Deutsche Bank Securities Inc.

3033 East First Avenue
Suite 303, Third Floor
Denver, CO 80206
Tel: (303) 394 6800

Deutsche Bank Securities Inc.

1735 Market Street
24th Floor
Philadelphia, PA 19103
Tel: (215) 854 1546

Deutsche Bank Securities Inc.

101 California Street
46th Floor
San Francisco, CA 94111
Tel: (415) 617 2800

Deutsche Bank Securities Inc.

700 Louisiana Street
Houston, TX 77002
Tel: (832) 239-4600

International locations

Deutsche Bank Securities Inc.

60 Wall Street
New York, NY 10005
United States of America
Tel: (1) 212 250 2500

Deutsche Bank AG London

1 Great Winchester Street
London EC2N 2EQ
United Kingdom
Tel: (44) 20 7545 8000

Deutsche Bank AG

Große Gallusstraße 10-14
60272 Frankfurt am Main
Germany
Tel: (49) 69 910 00

Deutsche Bank AG

Deutsche Bank Place
Level 16
Corner of Hunter & Phillip Streets
Sydney, NSW 2000
Australia
Tel: (61) 2 8258 1234

Deutsche Bank AG

Filiale Hongkong
International Commerce Centre,
1 Austin Road West, Kowloon,
Hong Kong
Tel: (852) 2203 8888

Deutsche Securities Inc.

2-11-1 Nagatacho
Sanno Park Tower
Chiyoda-ku, Tokyo 100-6171
Japan
Tel: (81) 3 5156 6770

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