TeleNav, Inc.

F2Q11 Results: Beat and Raise; Raising Ests and PT

Neutral

TNAV, TNAV US

Price: $7.37

▲ **Price Target: $9.50**
Previous: $7.50

TNAV beat F2Q expectations and raised F3Q and FY11 guidance; average subscribers reached 19.6 million. The company extended the AT&T contract by two additional years to March 2013, which removes a overhang. The adverse impact on gross margins of moving to the new Sprint fixed-fee contract was lower than we previously anticipated. Sprint represented 44% of revenue in the quarter, implying $21mm fixed fee per quarter, which will enable us to isolate growth at Sprint vs. other carriers going forward and project results with higher conviction. Growth in auto, premium navigation, business solutions, and ad-based revenues exceeded our forecast. Though TNAV is going through a no-growth transition phase, we believe the transition will take 4 - 6 quarters, rather than the 6 - 8 quarters previously anticipated. Maintain Neutral. Price Target goes to $9.50 (previously $7.50).

- **TNAV beat F2Q11 expectations**, reporting PF EPS of $0.24 on revenue of $48 million (JPMe $0.17/$45.9mm, Street $0.17/46.2mm). Average subscribers came in at 19.6 million, ahead of our forecast (18.8mm). Gross margins at 82% easily beat our expectations of 79%, so the impact of the transition to Sprint fixed fee contract so far appears quite benign. Emerging product categories (premium navigation, auto, ad-based) represented 7% of revenues, ahead of our forecast of 5%. The company benefited about $0.02 from a lower-than-expected tax rate, but we believe the results were otherwise clean and encouraging.
- **FY11 guidance was raised**. F3Q and FY11 guidance, both ahead of expectations. TNAV is looking for F3Q PF EPS of $0.16-$0.18 on sales of $48-50mm versus our at consensus forecast of $0.15 EPS on revenue of $45.2mm. Gross margins are expected to be about 80% versus our forecast of 76%. For the full year, TNAV is looking for $0.84-$0.88 EPS on sales of $195-$200mm (Prior JPMe $0.72/$187, Street $0.71/$190), so guidance has been increased by more than the extent of the F2Q beat.

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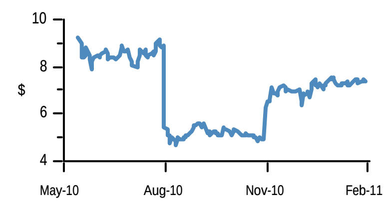
Price Performance



	YTD	1m	3m	12m
Abs	1.2%	-2.4%	49.2%	-19.9%

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TeleNav, Inc. (TNAV;TNAV US)

	2010A	2011E *(Old)*	2011E *(New)*	2012E *(Old)*	2012E *(New)*
EPS - Recurring ($)					
Q1 (Sep)	0.22	0.29A	0.29A	0.12	0.16
Q2 (Dec)	0.28	0.17	0.24A	0.11	0.15
Q3 (Mar)	0.34	0.15	0.18	0.10	0.15
Q4 (Jun)	0.31	0.12	0.16	0.10	0.15
FY	1.15	0.72	0.86	0.43	0.61
CY	1.18	0.49	0.64	0.41	0.58
EBITDA CY ($ mn)	86	47	61	44	58
Revenues FY ($ mn)	171	187	197	184	210

Source: Company data, Bloomberg, J.P. Morgan estimates.
GAAP EPS estimates: FY09A=$1.02; FY10A=$1.07; FY11: 1QA=$0.27, 2QA=$0.22, 3QE=$0.16, 4QE=$0.14; FY11E=$0.80;
FY12E=$0.53

Company Data	
Price ($)	7.37
Date Of Price	27 Jan 11
52-week Range ($)	11.48 - 4.65
Mkt Cap ($ mn)	330.87
Fiscal Year End	Jun
Shares O/S (mn)	45
Price Target ($)	9.50
Price Target End Date	31 Dec 11

See page 5 for analyst certification and important disclosures.

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- **Aside from extending the AT&T MRC contract for another two years**, TNAV outlined progress in the auto segment, subscriber growth at T-Mobile and US Cellular, and metrics in ad-based revenues. The company added 250,000 advertisers for the ad-base navigation platform in just one quarter; click-through is over 3%, and drive-to rates are still above 24%. Management expect these new growth initiatives to generate more than 10% of revenues by FY12.
- **Raising estimates.** Sprint represented 44% of revenue in the quarter, implying $21mm fixed fee per quarter, which will enable us to isolate growth at Sprint vs. other carriers going forward, and project results with higher conviction. We are re-working our model and forecasting methodology and raising estimates. Our subscription revenue forecast assumes that Sprint fixed fee remains constant at $21mm over the projection period. We then project other carrier subscription revenue based on other MRC ARPU assumptions and subscriber growth assumptions. Our forecasting methodology and estimates for Auto, MRM and ad-based revenues remain unchanged. We are now modeling: FY11 PF EPS $0.86, EBITDA $72.5mm, revenue $197.2 (previously $0.72 / $62.7mm / $187.1mm); FY12 PF EPS $0.61, EBITDA $60.2mm, revenue $209.8mm (previously $0.43/$45.9mm/$184.3mm); CY11 PF EPS $0.64, EBITDA $60.8mm, revenue $199.4mm (previously $0.49/$47.4mm/$179.5mm); CY12 PF EPS $0.58, EBITDA $58.1mm, revenue $222.1mm (previously $0.41/$44.2mm/$196.9mm).
- **Maintain Neutral,** meaning that we expect the stock to perform in line with the mean of our coverage universe in the next 6-12 months. The stock is still undervalued, in our view, but we believe TNAV will not outperform until we get improved metrics relating to the growth of premium and ad-based navigation services, and better visibility into re-accelerating revenue and earnings growth. Our December 2011 price target goes to $9.50 (previously $7.50).

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Valuation and Rating Analysis

Maintain Neutral, meaning that we expect the stock to perform in line with the mean of our coverage universe in the next 6-12 months. The stock is still undervalued, in our view, but we believe TNAV will not outperform until we get improved metrics relating to the growth of premium and ad-based navigation services, and better visibility into re-accelerating revenue and earnings growth.

Our December 2011 price target goes to $9.50 (previously $7.50) based on an assigned multiple of 5x our upward revised CY12E PF EBITDA of $58.1mm. Our multiple is based on the comms software/services peer group current median multiple of ~7x, but with a discount that takes into consideration significant shifts in the competitive landscape (free navigation solutions, Android gaining market share in handsets, TomTom gaining share in autos).

Risks to Our Rating and Price Target

We could become more constructive on TNAV's prospects for any of the following reasons:

- TeleNav experiences faster subscriber growth than we anticipate
- Telenav wins new customer contracts that spur subscriber growth
- New applications and features allow TNAV to stabilize or increase ARPUs and gross margins.
- Telenav’s growth initiatives, including MRM, Ad-based navigation/mcommerce, Auto OEM solutions, accelerate ahead of expectations.
- "Free" navigation solutions providers, such as Nokia or Google, exit the market or reduce their commitment
- TNAV reduces expenses relative to our expectations without compromising growth prospects, leading to higher margins than we anticipate.

We could become less constructive on TNAV’s prospects for any of the following reasons:

- Sprint terminates the relationship with TNAV or renegotiates terms that reduce revenues to TNAV, relative to our expectations
- AT&T, T-Mobile or other TNAV customers do not roll over contracts with TNAV, or reduce pricing.
- Free navigation from Google, Nokia and Mircosoft captures market share owing to the handsets on which these solutions are pre-provisioned.
- TeleNav’s ARPUs and gross margins fall faster than we have anticipated
- Subscriber growth falls short of our expectations.
- International growth, especially at China Mobile, does not happen.
- The company allows expenses to run up faster than we have forecast, leading to lower operating and EBITDA margins than we estimate.

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TeleNav, Inc.: Summary Of Financials

Income Statement - Annual	FY10A	FY11E	FY12E	FY13E	Income Statement - Quarterly	1Q11A	2Q11A	3Q11E	4Q11E
Revenues	171	197	210	234	Revenues	51	48	49	49
Cost of products sold	29	39	59	76	Cost of products sold	9	9	10	11
Gross profit	142	158	151	159	Gross profit	42	39	39	38
SG&A	32	43	42	43	SG&A	8	11	12	12
R&D	42	57	67	79	R&D	13	13	15	15
Stock based comp.	5	4	5	7	Stock based comp.	1	1	1	1
Non-cash charges	-	-	-	-	Non-cash charges	-	-	-	-
Operating Income	68	59	42	36	Operating Income	21	15	12	11
EBITDA	78	73	60	57	EBITDA	24	19	16	15
Other income / (expense)	(0)	0	0	0	Other income / (expense)	0	0	0	0
Pre-tax income	68	60	42	38	Pre-tax income	21	15	13	11
Income taxes	27	24	17	15	Income taxes	9	5	5	5
Net income - GAAP	41	36	25	22	Net income - GAAP	12	10	7	7
Net income PF	45	39	28	26	Net income PF	13	11	8	7
Diluted shares outstanding	39	45	47	48	Diluted shares outstanding	45	45	46	46
EPS - GAAP	1.07	0.80	0.53	0.46	EPS - GAAP	0.27	0.22	0.16	0.14
EPS PF	1.15	0.86	0.61	0.55	EPS PF	0.29	0.24	0.18	0.16

Balance Sheet and Cash Flow Data	FY10A	FY11E	FY12E	FY13E	Ratio Analysis	FY10A	FY11E	FY12E	FY13E
Cash and cash equivalents	113	157	189	215	Sales growth	54.4%	15.2%	6.4%	11.6%
Accounts receivable	37	38	42	45	EBIT growth	72.1%	(14.1%)	(25.8%)	(8.4%)
Inventories	0	0	0	0	EPS growth	11.0%	(25.3%)	(29.5%)	(9.5%)
Other current assets	5	14	14	14					
Current assets	155	209	245	275	Gross margin	82.8%	80.3%	71.9%	67.7%
PP&E	10	9	8	9	EBIT margin	43.0%	32.1%	22.4%	18.4%
Long-term portfolio investments	-	-	-	-	EBITDA margin	45.9%	36.8%	28.7%	24.3%
Goodwill and intangibles	-	-	-	-	Tax rate	39.1%	39.5%	41.0%	41.0%
Total assets	175	226	260	291	Net margin	26.2%	19.9%	13.6%	11.2%
Accounts payable	3	3	5	5	Debt / EBITDA	0.0	0.0	0.0	0.0
Deferred revenues	7	11	11	11	Debt / Capital (book)	0.0%	0.0%	0.0%	0.0%
Total debt	0	0	0	0					
Total liabilities	26	38	42	44	Return on assets (ROA)	36.4%	19.6%	11.7%	9.5%
Shareholders' equity	149	188	218	247	Return on equity (ROE)	58.9%	23.3%	14.0%	11.3%
					Return on invested capital (ROIC)	77.4%	63.8%	50.3%	44.2%
Net Income (including charges)	41	36	25	23					
D&A	5	9	13	14	Enterprise value / Sales	1.6	1.2	0.9	0.7
Change in Working Capital	(7)	5	(1)	(1)	Enterprise value / EBITDA	-	-	-	-
Other	-	-	-	-	Free cash flow yield	11.1%	11.9%	7.9%	6.4%
Cash flow from operations	44	55	43	42	P/E	6.9	9.2	13.8	15.9
Capex	(7)	(8)	(11)	(15)					
Free cash flow	37	47	32	26					
Cash flow from investing activities	(10)	(122)	(11)	(15)					
Cash flow from financing activities	45	(1)	0	0					
Dividends	-	-	-	-					
Dividend yield	-	-	-	-					

Source: Company reports and J.P. Morgan estimates.
Note: $ in millions (except per-share data). Fiscal year ends Jun

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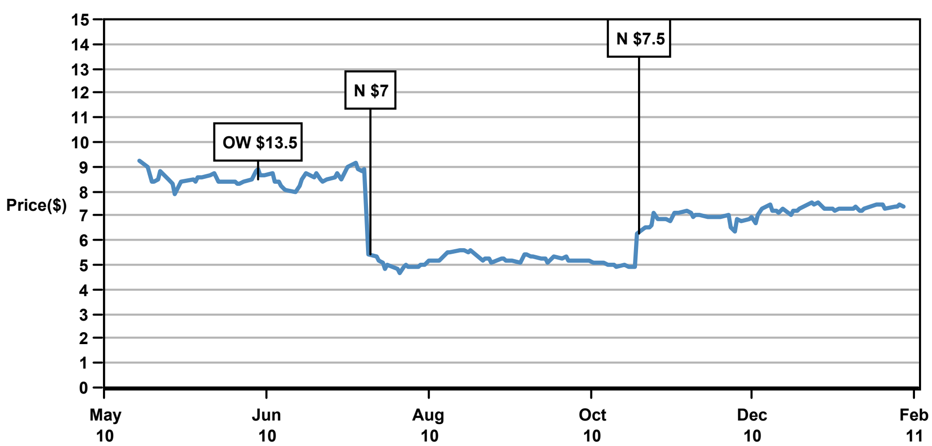
TeleNav, Inc. (TNAV) Price Chart



Date	Rating	Share Price ($)	Price Target ($)
22-Jun-10	OW	8.45	13.50
30-Jul-10	N	5.44	7.00
29-Oct-10	N	6.29	7.50

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Jun 22, 2010. This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
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