TELENAV, INC. (TNAV-Q)

Rating: Buy
12-Month Target: $16.80

ON LOCATING A MOBILE GEM

MARKET INFO: TNAV-Q			
Closing Price			$10.86
Target Price			$16.80
Potential ROI			54.7%
52 Week Range ($)			$4.65 / $12.27
Market Cap ($mm)			$451.5
Cash (mm)			$155.7
Debt (mm)			$0.0
Enterprise Value (mm)			$295.9
Shares o/s (mm)			42.0
Avg Volume (previous 3 months)			166,370
FYE: June 30	**FY2010A**	**FY2011E**	**FY2012E**
Revenue (mm)	$171.2	$198.6	$230.5
EBITDA (mm)	$78.5	$73.7	$79.5
EBITDA margin (%)	45.9%	37.1%	34.5%
EPS	$0.83	$0.84	$0.88
VALUATION	**FY2010A**	**FY2011E**	**FY2012E**
EV/Sales	1.7X	1.5X	1.3X
EV/EBITDA	3.8X	4.0X	3.7X
P/E	13.1X	13.0X	12.3X

Source: Capital IQ, M Partners

On Friday, we initiated coverage on TeleNav Inc. (TNAV-Q) with a BUY recommendation and a $16.80 target price. Key highlights of our report are:

- TeleNav Inc. owns 36% of the U.S/E.U. mobile turn-by-turn (TBT) navigation market because mobile operator customers need TNAV to help protect margins from "off-deck" LBS solutions that use data but don't generate revenue.
- With a base of 20 million users each contributing $2.60 to annual FCF, TeleNav has leveraged this profitable beachhead to successfully expand into adjacent high growth LBS markets including automotive in-dash navigation, mobile advertising, and enterprise MRM.
- TeleNav's greatest perceived competitive risk comes from "free" mobile handset navigation applications, particularly from Google. This threat has been and continues to be a drag on its valuation relative to its peers. Through solid investments over the past three years, we believe the company is mitigating this threat. TeleNav should earn increasingly higher valuation multiples as the company continues to de-risk the threat of "free" alternatives by:
    - Winning global automotive OEM contracts for in-dash navigation with companies like Ford and Delphi;
    - Demonstrating the effectiveness of its mobile advertising model with "drive to rates" of 24%;
    - Signing deals with leading global carriers like Vivo and China Mobile; and
    - Continuing to penetrate the enterprise.
- We believe that there is significantly more value in the company than the current share price implies. On an enterprise value basis, TNAV trades at a 3.7x our FY'12 EBITDA estimate of $79.5M, which is an unwarranted 48% discount to LBS peers that trade at a median multiple of 7.2x.
- TeleNav operates in multiple ecosystems where valuation multiples are considerably higher than where the company trades at now, ranging from 5.9x for automotive OEM vendors to 16.7x for cloud platforms. With the largest install base, diversifying revenue streams, and sticky carrier contracts, we believe that TeleNav should at least trade at the median of its LBS peer set.
- **Our $16.80 target price based on applying a 7.0x EV/EBITDA multiple to our FY'12 EBITDA estimate of $79.5M.**
- As a cross-check to our multiple valuation, we also performed a DCF calculation on our forecasted cash flows. At a discount rate of 12.0%, and a terminal growth of 3%, the share price calculates to $16.34, which is a small variance of 2.7% from our multiples based valuation.

Ron Shuttleworth
416.603.7381 x250
rs@mpartners.ca

Daniel Lee
416.603.7381 x277
dl@mpartners.ca

M | PARTNERS

Toronto Dominion Centre
Canadian Pacific Tower
100 Wellington Street West
Suite 2201, P.O. BOX 320
Toronto, Ontario M5K 1K2
Main line: 416-603-4343
Fax: 416–603-8608

Contact Information

Research

Alan Breuer	**ab@mpartners.ca**
Marc Johnson	**mj@mpartners.ca**
Michael Krestell	**mk@mpartners.ca**
Daniel Lee	**dl@mpartners.ca**
Ryan Roebuck	**rr@mpartners.ca**
John Safrance	**jsafrance@mpartners.ca**
Ron Shuttleworth	**rs@mpartners.ca**
Ingrid Rico	**irico@mpartners.ca**
Tom Varesh	**tv@mpartners.ca**

Trading

Ben Gelfand	**bg@mpartners.ca**
Steve Isenberg	**si@mpartners.ca**
Philippe Larente	**pl@mpartners.ca**
Kyle Maister	**km@mpartners.ca**
Jeff Maser	**jmaser@mpartners.ca**
Tommy Matthews	**tm@mpartners.ca**
Garett Prins	**gp@mpartners.ca**
Jeff Zicherman	**jz@mpartners.ca**
Helen Spasopoulos	**hs@mpartners.ca**

Advisory

Christopher Dingle	**cd@mpartners.ca**
Richard Goodman	**rg@mpartners.ca**
Kelly Klatik	**kk@mpartners.ca**
Thomas Kofman	**tk@mpartners.ca**
Jason Matheson	**jm@mpartners.ca**
Michael McIntosh	**mm@mpartners.ca**
Thupten Samchok	**ts@mpartners.ca**
Tom Tran	**ttran@mpartners.ca**

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Rating System

Buy: price expected to rise
Sell: price is inflated and expected to decrease
Hold: properly priced
Speculative Buy: price expected to rise; material risk to the investment exists
Under review: not currently rated

Summary of Recommendations		
As of December 31, 2010		
Buy	28	80%
Speculative Buy	1	3%
Sell	2	6%
Hold	3	9%
Under Review	1	3%
Total	35	100%

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