

30 July 2010

TeleNav

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

Q4 Results - Downgrade to Hold

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Good quarter and guide, but Sprint renegotiation arises

Telenav reported 4QFY10 revenue of \$49.5 million ahead of our estimate of \$46.7 million and consensus of \$47.0 million; pro-forma EPS of \$0.31 came in well ahead of our estimate of \$0.24 and consensus of \$0.25. The company guided ahead of expectations but cautioned that terms with their largest customer Sprint are being negotiated. We are lowering our rating from Buy to Hold.

Sprint negotiation becomes an overhang

In their press release the company warned that their 55% customer Sprint could potentially looking for very different terms from the next iteration of their agreement. The company warned this could result in not only lower ARPU but also lower total revenue. While the ultimate impact of this may not be as serious as it at first sounds, until the company can provide clearer guidance on this we believe the matter will remain an overhang on the stock.

Core business still doing well

Setting aside long-term concerns, the company's core business did well in the quarter. They saw growth across customers and segments. Sprint's growth remains a very positive contributor in the quarter, but business grew elsewhere including AT&T, newly-won US Cellular, AT&T, China Mobile and their non carrier businesses as well. In MRM, they won a major contract to provide asset tracking for a large manufacturer (which we believe is Xerox).

Lowering price target from \$12 to \$9 and rating to 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 13% discount rate (using a 5.5% risk free rate, a beta of 1.4 and risk premium of 5%). Downside risks the threat of continued competition from free navigation providers such as Google. Upside risks include the potential for a better-than expected resolution of their Sprint contract negotiation.

Forecasts and ratios

Year End Jun 30	2009A	2010E	2011E
1Q EPS ¹	0.02	0.02A	0.23
2Q EPS	0.02	0.16A	0.22
3Q EPS	0.02	0.31A	0.24
4Q EPS	0.02	0.31A	0.26
FY EPS (USD)	0.07	0.28	0.96
OLD FY EPS (USD)	0.07	0.26	0.91
% Change	0.0%	7.6%	5.1%
P/E (x)	–	31.7	9.3
DPS (USD)	0.00	0.00	0.00
Dividend yield (%)	–	0.0	0.0
Revenue (USDm)	110.9	171.2	216.8

Source: Deutsche Bank estimates, company data

¹ Includes the impact of FAS123R requiring the expensing of stock options.

Recommendation Change

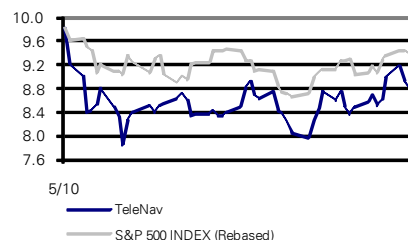
Hold

Price at 29 Jul 2010 (USD)	8.91
Price target	9.00
52-week range	9.80 - 7.85

Key changes

Rating	Buy to Hold	↓
Price target	12.00 to 9.00	↓ -25.0%
EPS (USD)	0.26 to 0.28	↑ 7.6%
Revenue (USDm)	168.4 to 171.2	↑ 1.6%

Price/price relative



Performance (%)	1m	3m	12m
Absolute	5.7	–	–
S&P 500 INDEX	5.8	-8.7	13.0

Stock & option liquidity data

Market Cap (USDm)	481.9
Shares outstanding (m)	54.1
Free float (%)	100
Volume (29 Jul 2010)	62,926
Option volume (und. shrs., 1M avg.)	–

Deutsche Bank Securities Inc.

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Model updated: 30 July 2010

Running the numbers

North America

United States

Wireless Equipment

TeleNav

Reuters: TNAV.OQ

Bloomberg: TNAV US

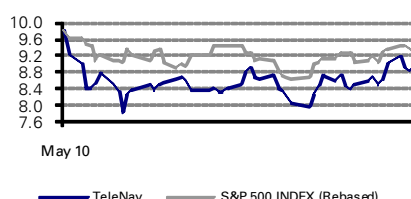
Hold

Price (29 Jul 10)	USD 8.91
Target price	USD 9.00
52-week Range	USD 7.85 - 9.80
Market Cap (m)	USDm 482
	EURm 368

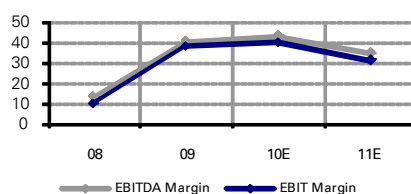
Company Profile

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.

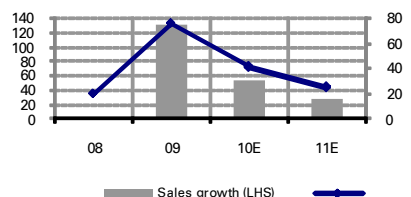
Price Performance



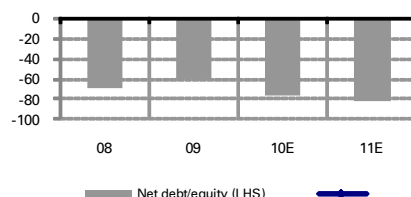
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Jun

Financial Summary

	2008	2009	2010E	2011E
DB EPS (USD)	0.02	0.07	0.28	0.96
Reported EPS (USD)	0.01	0.09	0.37	1.09
DPS (USD)	0.00	0.00	0.00	0.00
BVPS (USD)	0.18	0.40	2.76	6.88

Valuation Metrics

Price/Sales (x)	nm	nm	2.8	1.2
P/E (DB) (x)	na	na	31.7	9.3
P/E (Reported) (x)	na	na	24.2	8.2
P/BV (x)	0.0	0.0	3.2	1.3
FCF yield (%)	na	na	5.4	20.3
Dividend yield (%)	na	na	0.0	0.0
EV/Sales	nm	nm	2.2	0.4
EV/EBITDA	nm	nm	5.0	1.2
EV/EBIT	nm	nm	5.4	1.3

Income Statement (USDm)

Sales	48	111	171	217
EBITDA	6	45	73	74
EBIT	5	42	68	68
Pre-tax profit	5	42	68	68
Net income	5	30	41	42

Cash Flow (USDm)

Cash flow from operations	0	24	37	60
Net Capex	-2	-8	-11	-8
Free cash flow	-2	16	26	51
Equity raised/(bought back)	0	0	29	0
Dividends paid	0	0	0	0
Net inc/(dec) in borrowings	0	0	0	0
Other investing/financing cash flows	0	0	23	-3
Net cash flow	-2	16	78	49
Change in working capital	-11	-9	-14	5

Balance Sheet (USDm)

Cash and cash equivalents	17	33	113	162
Property, plant & equipment	3	7	10	9
Goodwill	0	0	0	0
Other assets	16	32	52	54
Total assets	36	72	175	224
Debt	0	0	0	0
Other liabilities	12	17	26	29
Total liabilities	12	17	26	29
Total shareholders' equity	24	55	149	195
Net debt	-17	-33	-113	-162

Key Company Metrics

Sales growth (%)	nm	130.7	54.4	26.7
DB EPS growth (%)	na	333.8	314.2	241.1
Payout ratio (%)	0.0	0.0	0.0	0.0
EBITDA Margin (%)	13.1	40.3	42.9	34.2
EBIT Margin (%)	9.9	38.1	40.0	31.4
ROE (%)	18.9	74.8	40.6	24.3
Net debt/equity (%)	-69.1	-60.5	-75.7	-82.9
Net interest cover (x)	nm	nm	nm	nm

DuPont Analysis

EBIT margin (%)	9.9	38.1	40.0	31.4
x Asset turnover (x)	1.3	2.0	1.4	1.1
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	33.6	21.0
x Financial leverage (x)	1.5	1.4	1.2	1.2
= ROE (%)	18.9	74.8	40.6	24.3
annual growth (%)	na	296.4	-45.7	-40.2
x NTA/share (avg) (x)	0.1	0.1	0.9	4.5
= Reported EPS	0.01	0.09	0.37	1.09
annual growth (%)	na	523.3	313.8	195.4

Source: Company data, Deutsche Bank estimates

Telenav reported 4QFY10 revenue of \$49.5 million ahead of our estimate of \$46.7 million and consensus of \$47.0 million; pro-forma EPS of \$0.31 came in well ahead of our estimate of \$0.24 and consensus of \$0.25. The company guided ahead of expectations but cautioned that terms with their largest customer Sprint are being negotiated.

Despite otherwise good results and what is likely a conservative Q1 guidance we think the renegotiation with Sprint could become a serious issue for Telenav. The chief risks associated with the company have always been the high degree of customer concentration and the emerging threat of free navigation providers such as Google.

It now appears that Sprint's success at building subscribers with its bundled pricing plans has done well enough that they are looking to reduce costs associated with that success. We believe the success of the EVO Android phone from HTC as well as the progress of Android phones with other carriers may have prompted Sprint to consider working more closely with Google. We do not believe that Telenav will be displaced at Sprint, but we do think they will come under pressure to offer more flexible pricing terms. This may mean a further shift to advertising revenue for Telenav or some other monetization method. The point being that no one can say what the new Sprint model for Telenav will look like. On the call the company was unable to answer many questions about the subject given the ongoing nature of the negotiations.

We also think the surprise here is not that Sprint is looking to bring prices down, but that they are looking to do so this early. The company has long cautioned that over time they expect prices to go to zero for navigation. We think the company received a discounted multiple relative to SaaS peers, in part because of the shift in business model from subscription revenue to a more ad-driven model. We originally expected that to occur over a number of years, but there is now the risk that the transition may happen much sooner.

We do not mean to portray the situation as overly dire. We see the most likely outcome of the Sprint renegotiating ending with lower prices for Telenav, or possibly a split between smart phones for Google and feature phones for Telenav. But by no means do we think that Telenav will lose Sprint. There is still significant value in the company's operations. The main factor for the stock, however, will be the high degree of uncertainty. Until there is more clarity over Sprint, these concerns will prove an overhang on the stock. These concerns will likely overshadow any potential near-term positive catalysts such as the announcement of a new carrier customer or a shift from a MRR plan to a bundle by AT&T.

As a result we are lowering our rating from Buy to Hold.

We are also reducing our forward estimates to reflect the potential for faster price erosion, as below.

1Q11 was \$49m and \$0.21, is \$50m and \$0.23
 2Q11 was \$52m and \$0.23, is \$53m and \$0.20
 FY11 was \$214m and \$0.91, is \$217m and \$0.92
 FY12 was \$265m and \$1.06, is \$242m and \$1.07
 CY10 was \$193m and \$0.99, is \$198m and \$1.05
 CY11 was \$237m and \$1.06, is \$228 and \$1.00

Risks & Valuation

We are lowering our price target from \$12 to \$9. 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 13% discount rate (using a 5.5% risk free rate, a beta of 1.4 and risk premium of 5%).

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	8.91 (USD) 29 Jul 10	1,2,7

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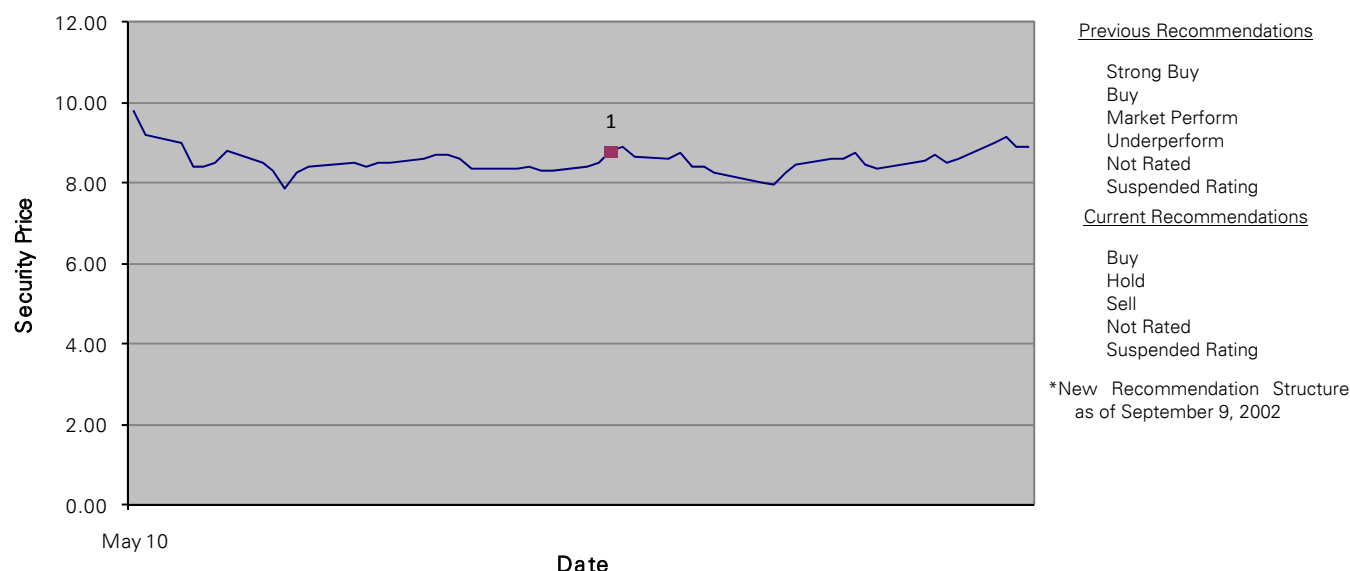
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Historical recommendations and target price: TeleNav (TNAV.OQ)

(as of 7/29/2010)

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

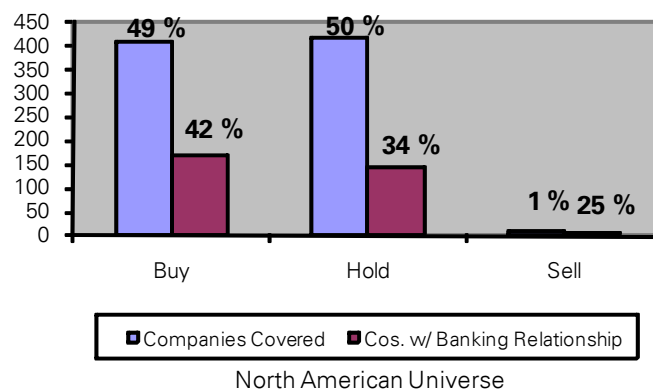
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