

TeleNav

TNAV : NASDAQ : US\$4.90

BUY

Target: US\$10.00 ↑

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COMPANY STATISTICS:

52-week Range:	7.80 - 9.25
Avg. Daily Vol.:	1,228
Market Cap (M):	US\$220
Shares Out basic (M):	45
LT Debt (M):	0.0
Net Cash /shr:	2.92
Bk Value/Sh:	US\$3.61
FYE:	June
Website:	http://www.telenav.com/

EARNINGS SUMMARY:

EXTENDED SUMMARY				
FYE Jun		2009A	2010A	2011E
Revenue (M):		110.9	171.2	190.2
EBITDA (M):		44.7	73.6	61.1
Net income (M):		29.6	41.4	30.7
EPS:		0.57	1.06	0.67
EPS:	Q1	-	0.21	0.27A
	Q2	-	0.27	0.16
	Q3	-	0.33	0.12
	Q4	-	0.24	0.12
Total		0.57	1.06	0.67

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

EXCLUDING THE SPRINT CONTRACT DOWNTICK, GROWTH AND BUILDING CASH BALANCES KEEP US BUYERS; TARGET GOES TO \$10

Investment recommendation

We are maintaining our BUY recommendation and raising our target price to \$10 after TNAV's FQ1/11 report. We continue to believe that core operating fundamentals are strong and that opportunities from mobile advertising and commerce exist going forward.

Investment highlights

- Revenue/EPS of \$51M/\$0.27 was better than late-September preannounced results of \$50M/\$0.22.
- Strong paying sub growth (+64% y/y) in a difficult environment that includes free turn-by-turn alternatives.
- Revenue growth at all key carriers and growing cash balances.
- FQ2/11 revenue/EPS guidance of \$45M-\$47M/\$0.14-\$0.16 vs. consensus of \$43M/\$0.13.
- F2011 revenue/EPS guidance of \$187M-\$192M/\$0.64-\$0.72 vs. consensus of \$183M/\$0.62.

Valuation

Our \$10 target price implies a 5x multiple on our 2011 EV/EBITDA estimate of \$61M and takes into account prepayment amounts received in October. Maintain BUY.

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EARNINGS SUMMARY

Figure 1: Earnings summary

FYE June 30 (US\$000s, except per share)	FQ1/11A	FQ1/11E	Difference	FQ4/10A	Q/Q Chg %	FQ1/10A	Y/Y Chg %
Revenue	51,100	50,385	715.0	49,510	3%	36,048	42%
Gross margin	82.7%	80.1%	2.6%	83.1%	-1%	80.4%	3%
EBITDA	22,687	18,992	3,694.9	19,465	17%	15,634	45%
Operating margin	40.6%	33.3%	7.3%	35.9%	13%	40.5%	0%
Net income	12,358	9,934	2,423.5	10,612	16%	8,121	52%
EPS (fd)	0.27	0.22	0.06	0.24	15%	0.21	29%
Paying Subs	17,700	16,800	900.0	16,100	10%	10,800	64%
ARPU	0.94	0.97	(0.0)	1.03	-9%	1.10	-15%
Consensus revenue	48,660						
Consensus EPS	0.22						

Source: Company reports, Thomson ONE and Canaccord Genuity

- Paying subs increased to 17,700 from 16,100 last quarter, representing 64% y/y and 10% q/q growth. This shows solid growth amid an environment of free turn-by-turn competitor offerings.
- ARPU of \$0.94 vs. \$1.10 last year and \$1.03 last quarter. The decline was expected due to the shift in end-user growth to bundled offerings and, to a lesser extent, the Sprint re-negotiation (the resolution came with roughly 9 days left in the September quarter).
- As a reminder, the term of the Sprint agreement was extended for one year with TNAV's preferred provider status now expiring two years later than originally scheduled. 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.
- The AT&T contract, which is a three-year agreement that automatically renews on an annual basis, comes up for renewal in March 2011. Unlike the Sprint contract, this one is a revenue share agreement (MRC). Management commentary is that it fully expects the contract to renew.
- TNAV saw revenue growth at all key carriers in the quarter.
- Cash and equivalents at the end of the quarter was \$131M, up from \$113M in FQ4/10. Net cash per share increased to \$2.92 from \$2.69 last quarter.
- FQ2/11 revenue/EPS guidance of \$45M-\$47M/\$0.14-\$0.16 vs. consensus of \$43M/\$0.13.
- F2011 revenue/EPS guidance of \$187M-\$192M/\$0.64-\$0.72 vs. consensus of \$183M/\$0.62.

ESTIMATES

Our FQ2/11 estimate ticks up nicely on the heels of the strong FQ1/11 report. Our revenue estimate goes to \$46M from \$44M, sitting at the midpoint of guidance, while our EPS estimate of \$0.16 (up from \$0.11) is at the high-end of the guidance range.

Our F2011 estimates were increased, as well, with our new revenue/EPS estimates of \$190M/\$0.67 falling in the middle of the guidance range.

Figure 2: Estimate revisions

FYE June 30 (US\$000s, except per share)	Original FQ2/11E	Revised FQ2/11E	Original F2011E	Revised F2011E
Total revenue	43,982	46,115	182,008	190,178
<i>y/y growth</i>	8.6%	13.9%	6.3%	11.1%
Gross Margin	75.0%	79.5%	76.3%	78.0%
EBITDA	11,179	14,880	52,611	61,138
<i>margin</i>	25.4%	32.3%	28.9%	32.1%
Operating Margin	20.0%	27.1%	23.4%	27.1%
Net Income	5,243	7,426	25,384	30,659
EPS (FD)	0.11	0.16	0.55	0.67
<i>y/y growth</i>	-57.5%	-38.8%	-48.4%	-37.1%
Paying Subs	18,000	18,900	18,000	19,300
ARPU	\$0.79	\$0.79	\$0.81	\$0.80
Consensus revenue	42,740		182,660	
Consensus EPS	0.13		0.62	

Source: Thomson ONE and Canaccord Genuity

VALUATION AND RECOMMENDATION

Our \$10 target price implies a 5x multiple on our 2011 EV/EBITDA estimate of \$61M and takes into account prepayment amounts received in October. We believe that core operating fundamentals are strong and continue to believe that opportunities from mobile advertising and commerce exist going forward. We maintain our BUY recommendation.

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

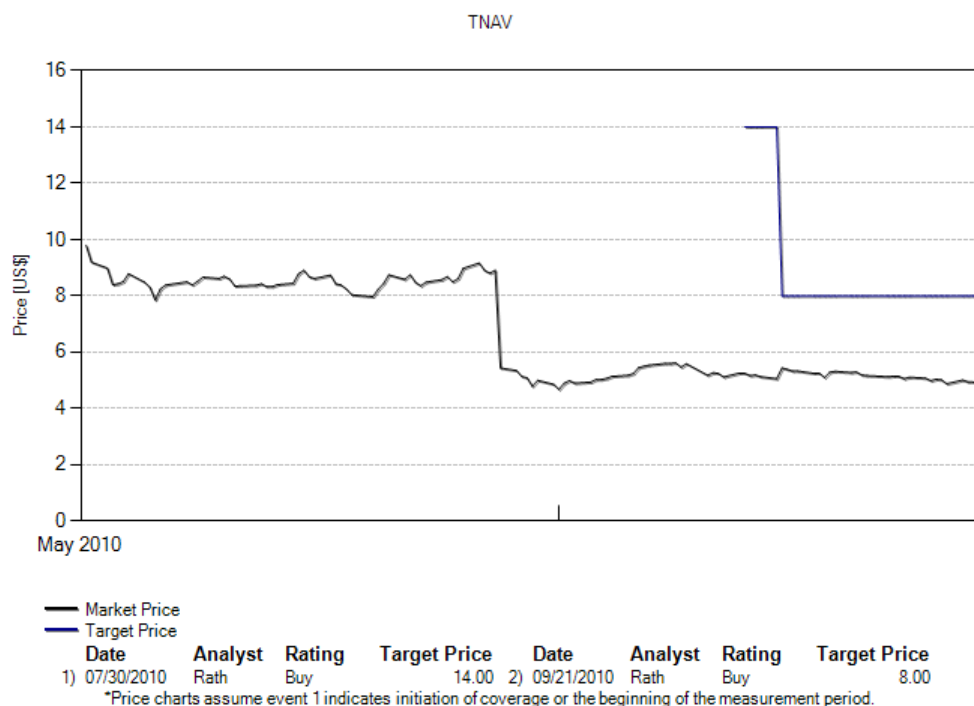
29 October 2010

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

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(as of 5 October 2010)

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	#	%	#	%
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Speculative Buy	73	10.3%	76	76.7%
Hold	197	27.7%	19	19.8%
Sell	15	2.1%	0	0.0%
	711	100.0%		

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TeleNav	1A, 2, 3, 5, 7
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