

April 29, 2011

TELENNAV, INC. (TNAV-Q)

Rating: Buy

New 12-Month Target: \$18.90

Q3'11 RESULTS

Previous 12-Month Target: \$16.80

MARKET INFO: TNAV-Q			
Closing Price	\$11.47		
Target Price	\$18.90		
Potential ROI	64.8%		
52 Week Range (\$)	\$4.65 / \$12.56		
Market Cap (\$mm)	\$477.1		
Cash (mm)	\$211.3		
Debt (mm)	\$0.0		
Enterprise Value (mm)	\$265.8		
Shares o/s (mm)	41.6		
Avg Volume (previous 3 months)	206,970		
FYE: June 30	FY2010A	FY2011E	FY2012E
Revenue (mm)	\$171.2	\$209.7	\$242.1
EBITDA (mm)	\$78.5	\$82.2	\$82.1
EBITDA margin (%)	45.9%	39.2%	33.9%
EPS, Basic	\$1.64	\$1.03	\$1.01
EPS, F.D.	\$0.83	\$0.94	\$0.92
VALUATION	FY2010A	FY2011E	FY2012E
EV/Sales	1.6X	1.3X	1.1X
EV/EBITDA	3.4X	3.2X	3.2X
P/E	7.0X	11.1X	11.4X

Source: Capital IQ, M Partners



Q3'11 RESULTS CRUSH CONSENSUS

- Last night TNAV reported a big beat with revenues 17.8% above our estimate and 15.8% above consensus. Adjusted EBITDA was 44.4% above our forecast and 48.3% higher than consensus EBITDA. Margin remained inline with last quarter, despite expectations that margins would contract. EPS was reported at \$0.25 fully diluted, 47% higher than consensus and the M Partners estimate.
- An amendment to the Ford contract resulted in \$6.6 million of revenue for the quarter. This was a catch up of deferred revenue from production for the past two quarters.
- Revenue excluding Ford was \$50.5M and also above guidance and consensus. For the quarter revenue concentration from AT&T and Sprint declined to 34% and 36% respectively, with new US operators representing 10% of revenue and international operators representing 6%, up from 4%. Including the Ford contract adjustment, high potential business sectors represented 19% of total revenue. Telenav will exit FY'11 with these lines of business representing 13% of total revenues.
- The company generated \$64.2 of cash from operations during the quarter, ending with \$211.3M of cash and equivalents or \$4.67 per fully diluted share. Cash from operations was positively impacted by an annual fixed license payment from Sprint.
- Operating expenses were \$26.6M, generally inline with our estimate of \$26.2M.
- The effective tax rate for Q3'11 was reported at 38%, which was lower than our estimate of 40%.

(\$mm)	Actuals			Q3'11 Estimates		Change	
	Q3'11A	Q2'11A	Q3'10A	M Partners	Consensus	Q/Q	Y/Y
Revenue	\$57.1	\$48.0	\$45.1	\$48.5	\$49.3	18.9%	26.6%
Adj. EBITDA	\$21.9	\$18.5	\$20.9	\$15.2	\$14.8	18.4%	4.8%
EBITDA (%)	38.4%	38.6%	46.4%	31.3%	30.0%	- 1749 bps	- 800 bps
EPS	\$0.25	\$0.22	\$0.25	\$0.17	\$0.17	11.8%	0.4%

Source: M Partners, Company Reports, Capital IQ

GUIDANCE AND OUTLOOK

- Management is guiding for between \$52.0M and \$54.0M of revenue for Q4'11, which is ahead of our estimate of approximately \$51.0M. We believe that the company could report near the higher end of guidance. The company also guided to \$0.16 and \$0.18 of fully diluted EPS for the quarter. Our estimate was \$0.18 of fully diluted EPS.
- The company also increased full-year revenue guidance to between \$208M and \$210M, up from between \$198M and \$200M previously. Diluted net income per share was guided to between \$0.91 and \$0.93 for the full year, up from previous guidance of \$0.79 to \$0.83. Our estimate was \$0.84 EPS per fully diluted share.
- We are adjusting our revenue forecast up for Q4'11 to \$53.5M up from our previous estimate of \$50.9M. In turn, we are increasing our FY'11 revenue estimate to \$209.7M, up from \$198.5M to reflect the increase in guidance from the company. Our new estimate falls within the range of guidance provided by management, albeit at the high end. Reporting evidence suggests that there is a solid probability that performance will align to the top-end of guidance.
- The blended EBITDA margin for FY'11 calculates to 39.2%, based on an adjusted Q4'11 EBITDA margin estimate of 34%.

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- For Q4'11, we have increased our expense estimates to \$27.6M, up from \$26.9M, which is near the upper end of guidance provided by management at between \$27M and \$28M.
- Based on current evidence, it appears that Telenav performance is exceeding our expectations, and it does not appear that there are any known bumps along the way (at least in the short-term). As a result, we are also increasing our revenue estimate for FY'12 to \$242.1M, up from our previous FY'12 estimate of \$230.5M. Our new FY'12 estimate infers a 15% YoY growth rate from our new FY'11 estimate of \$209.7M. We maintain a 15% YoY growth forecast, which is consistent with our previous forecast but from a higher base.
- The quarterly trajectory accelerated slightly in H2'12 due to the potential impact of China Mobile deployments, which appear to be on schedule. Our Q1'12 revenue forecast increases to \$56.2M, up from our previous FY'12 estimate of \$53.5M.

UPSIDE POTENTIAL TO OUR FORECAST

- Even as we increase our forecasts, there are potential upside events that could positively impact performance:
 - Although the Delphi contract is baked into our estimates, there is a possibility that TNAV could sign new automotive OEM partners, or expand its relationship with current clients like Ford.
 - The Verizon iPhone 4 program could take off.
 - New international mobile operators could come online within the next four quarters.
 - New advertising, commerce, and value-added services partnerships could come online.
 - Telenav may leverage its balance sheet to make accretive acquisitions.
- Based on the potential for new opportunities for Telenav over the next few quarters, there is a chance that it could grow by more than 15% during FY'12. Between FY'10 and FY'11, the company should grow by about 19% based on its current FY'11 guidance, so there is evidence that Telenav could grow by more than 15%.

VALUATION

- Consistent with our recent initiating report, we are valuing the company based on a 7x FY'12 EV/EBITDA multiple, which is inline with the median of its immediate peers at 7.2X FYE+1 EV/EBITDA multiple. Considering that its growth trajectory and EBITDA margins are both higher than the peer set, and it does not look like it is declining any time soon, we argue that Telenav should be valued at least equivalent to the peer set. Currently Telenav has no debt with \$211.3M of cash and cash equivalents and trades at 3.2X FY'12 EV/EBITDA. Based on a 7x EV/EBITDA multiple of our new FY'12 EBITDA estimate of \$82.1M, up from \$79.4M, the implied share price calculates to \$18.90. **As a result, we reiterate our BUY recommendation, and increase our 12-month share price target to \$18.90 from \$16.80.** The implied return from yesterday's closing share price is 65%.
- Our EV/EBITDA multiple valuation is supported by our DCF model calculation, which values the company at \$19.18 based on a discount rate of 11.5% and a terminal growth rate of 3%.

RISKS

- We believe that we have properly estimated expenses, although the company has stated that there is upward pressure on wages in both China and in the Valley.
- China Mobile may not roll-out as expected, although indications are that it is on target.
- Although it is declining, Telenav has customer concentration risk, with over 70% of revenues coming from two large clients.
- The mobile sector is exceptionally litigious, and Telenav may need to defend its IP position against a third-party, which could impair margins.
- The competitive landscape could shift unexpectedly, impairing short-term performance.

											Valuation Multiples				
TeleNav	Market Cap (mm)	Ent. Value (mm)	LTM Revenues (mm)	Cash & Equiv. (mm)	LTM EBITDA (mm)	LTM EBITDA Margin (%)	LTM EPS	EBITDA (%)	ROE (%)	3-Year Growth Rate (%)	FYE TEV/ EBITDA	FY+1 TEV/ EBITDA	FWD P/E	TEV/ LTM EBITDA	TEV/ LTM Revenues
LBS Vendors															
DigitalGlobe, Inc. (NYSE:DG1)	\$1,339.3	\$1,506.1	\$322.2	\$179.3	\$164.1	50.9	0.1	50.9%	0.8%	28.5%	6.1x	5.6x	85.7x	9.2x	4.7x
Garmin Ltd. (NasdaqGS:GRMN)	\$6,647.0	\$5,361.6	\$2,689.9	\$1,285.4	\$731.3	27.2	3.0	27.2%	19.9%	-5.4%	8.4x	8.6x	14.6x	7.3x	2.0x
GeoEye, Inc. (NasdaqGS:GEOY)	\$823.9	\$998.7	\$330.3	\$333.4	\$170.1	51.5	1.0	51.5%	6.8%	21.8%	5.3x	4.1x	19.0x	5.9x	3.0x
TomTom NV (ENXTAM:TOM2)	\$1,345.3	\$1,647.6	\$1,521.1	\$291.8	\$276.6	18.2	0.5	18.2%	0.7%	0.0%	6.1x	5.7x	9.6x	9.6x	NM
Trimble Navigation Limited (NasdaqGS:TRMB)	\$6,176.3	\$6,128.2	\$1,293.9	\$220.8	\$206.2	15.9	0.8	15.9%	7.8%	1.9%	20.7x	17.5x	26.0x	28.1x	4.7x
Wireless Matrix Corp. (TSX:WRX)	\$73.3	\$59.8	\$37.7	\$13.5	\$5.2	13.9	(0.0)	13.9%	-11.5%	4.0%	12.1x	9.1x	18.5x	11.4x	1.6x
Average								29.6%	4.1%	8.5%	9.8x	8.4x	28.9x	11.9x	3.2x
Median								22.7%	3.8%	3.0%	7.2x	7.2x	18.8x	9.4x	3.0x
TeleNav, Inc. (NasdaqGS:TNAV)								43.0%	33.0%	63.1%	3.2x	3.2x	11.1x	3.0x	1.3x

Source: Capital IQ, M Partners

April 29, 2011

TeleNav Inc.

Year Ended June 30

Income statement (\$MM, except per share amounts)	F'08A	F'09A	F'10A	Q1'11A	Q2'11A	Q3'11A	Q4'11E	F'11E	Q1'12E	Q2'12E	Q3'12E	Q4'12E	F'12E
Revenue	48.07	110.88	171.16	51.10	48.02	57.11	53.50	209.73	56.18	58.98	61.93	65.03	242.12
Cost of Sales	11.36	20.25	29.48	8.85	8.83	12.74	10.70	41.12	11.38	12.04	12.77	13.53	49.71
Gross Margin	36.71	90.63	141.68	42.25	39.19	44.37	42.80	168.61	44.80	46.94	49.17	51.50	192.41
Operating Expenses													
Research & Development	13.69	23.50	41.56	13.03	13.47	14.24	14.75	55.49	16.29	17.11	17.96	18.86	70.22
Sales & Marketing	13.25	16.54	17.20	4.73	5.80	6.70	6.94	24.17	6.74	7.08	7.43	7.80	29.05
General and Administrative	4.99	8.30	14.52	3.75	4.72	5.70	5.91	20.08	5.62	5.90	6.19	6.50	24.21
	31.93	48.34	73.27	21.50	24.00	26.64	27.60	99.74	28.65	30.08	31.59	33.17	123.48
Operating Income	4.78	42.29	68.41	20.75	15.19	17.73	15.20	68.88	16.15	16.86	17.58	18.34	68.93
Adj. EBITDA	6.73	45.19	78.53	23.54	18.54	21.94	18.21	82.23	19.15	20.06	20.98	21.95	82.14
Other Income													
Other income (expense)	(0.58)	(1.04)	(0.52)	0.20	0.17	(0.00)	0.00	0.36	0.00	0.00	0.00	0.00	0.00
Interest income	0.59	0.27	0.11	0.00	0.08	0.31	0.21	0.60	0.21	0.21	0.21	0.21	0.86
	0.01	(0.78)	(0.41)	0.20	0.25	0.31	0.21	0.96	0.21	0.21	0.21	0.21	0.86
Income (loss) before tax	4.79	41.52	68.00	20.95	15.44	18.04	15.41	69.84	16.36	17.07	17.80	18.55	69.79
Provision for income taxes	0.18	11.90	26.59	8.59	5.40	6.87	6.01	26.87	6.55	6.83	7.12	7.42	27.91
Net income	4.61	29.62	41.41	12.36	10.04	11.17	9.40	42.97	9.82	10.24	10.68	11.13	41.87
Net income applicable to common shareholders	1.88	15.72	25.56	12.36	10.04	11.17	9.40	42.97	9.82	10.24	10.68	11.13	41.87
Earnings per share													
Basic	\$0.17	\$1.39	\$1.64	\$0.29	\$0.24	\$0.27	\$0.23	\$1.03	\$0.24	\$0.25	\$0.26	\$0.27	\$1.01
Diluted	\$0.07	\$0.57	\$0.83	\$0.27	\$0.22	\$0.25	\$0.21	\$0.94	\$0.22	\$0.23	\$0.23	\$0.24	\$0.92
Weighted average shares													
Basic	11.2	11.3	15.6	42.2	42.1	41.9	41.6	41.6	41.6	41.6	41.6	41.6	41.6
Diluted	26.9	27.7	30.8	44.9	44.9	45.2	45.5	45.5	45.5	45.5	45.5	45.5	45.5
Margins:													
Gross margin	76.4%	81.7%	82.8%	82.7%	81.6%	77.7%	80.0%	80.4%	79.8%	79.6%	79.4%	79.2%	79.5%
Adj EBITDA	14.0%	40.8%	45.9%	46.1%	38.6%	38.4%	34.0%	39.2%	34.1%	34.0%	33.9%	33.8%	33.9%
OPEX as % of Revenues	66.4%	43.6%	42.8%	42.1%	50.0%	46.6%	51.6%	47.6%	51.0%	51.0%	51.0%	51.0%	51.0%
Operating	9.9%	38.1%	40.0%	40.6%	31.6%	31.0%	28.4%	32.8%	28.8%	28.6%	28.4%	28.2%	28.5%
Net income	9.6%	26.7%	24.2%	24.2%	20.9%	19.5%	17.6%	20.5%	17.5%	17.4%	17.2%	17.1%	17.3%

Source: Company Reports, M Partners

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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 March 31, 2011		
Buy	35	86%
Sell	1	2%
Hold	5	12%
Total	41	100%

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