

29 April 2011

Changes	Annual EPS	Annual Revenue (\$M)	Target
	2011E \$0.98 from \$0.86	2011E \$209.5 from \$198	\$17 from \$15.25
	2012E \$0.95 from \$0.93	2012E \$231.5 from \$227	

TeleNav

TNAV : NASDAQ : US\$11.47

BUY**Target: US\$17.00 ↑**

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COMPANY STATISTICS:

52-week Range:	4.65 - 12.56
Avg. Daily Vol.(000):	207
Market Cap (M):	US\$518
Shares Out basic (M):	45
LT Debt (M):	0.0
Net Cash /shr:	US\$4.68
Bk Value /shr:	US\$3.93
FYE:	June
Website:	http://www.telenav.com/

EARNINGS SUMMARY:

FYE Jun		2010A	2011E	2012E
Revenue (M):		171.2	209.5	231.5
EBITDA (M):		73.6	77.3	78.0
Net income (M):		41.4	41.8	39.0
EPS adj.:		1.14	0.98	0.95
EPS adj.:	Q1	0.22	0.29A	--
	Q2	0.27	0.24A	--
	Q3	0.34	0.27A	--
	Q4	0.31	0.20	--
Total		1.14	0.98	0.95

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

CONTINUED SOLID EXECUTION; NON-HANDSET REVENUE EXPANDING; FORD/CHINA MOBILE SOURCE OF UPSIDE; MAINTAIN BUY, TARGET RAISED TO \$17

Investment recommendation

We are maintaining our BUY recommendation and increasing our target to \$17 after TNAV's strong FQ3/11 report. We continue to believe that core operating fundamentals are strong and growing within an underpenetrated market. Additional sources of growth are emerging from mobile advertising, automotive and international.

Investment highlights

- Rev/adj. EPS of \$57M (+28% y/y)/\$0.27 vs. our and consensus' \$49M/\$0.18 estimate and guidance of \$48-\$50M/\$0.16-\$0.18. This is the third consecutive beat.
- Paying subs reached 22.5M vs. 19.6M last quarter, up 54% y/y.
- Guidance raised again: FQ4/11E rev/adj. EPS of \$52M-\$54M/\$0.18-\$0.20 vs. consensus \$49.6M/\$0.17. F2011E rev/adj. EPS of \$208M-\$210M/\$0.98-\$1.00 vs. consensus of \$198M/\$0.86 and prior guidance of \$195-\$200M/\$0.84-\$0.88.
- Cash per share now sits at \$4.64/share (total cash of \$211M).

Valuation

Our new \$17 target implies 7x our new 2012 EV/EBITDA estimate and 12.5x our new 2012 adjusted EPS estimate plus net cash. Both multiples are unchanged from prior valuation. Maintain BUY.

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EARNINGS SUMMARY

Figure 1: Earnings summary

FYE June 30 (US\$000s, except per share)	FQ3/11A	FQ3/11E	Difference	FQ2/11A	Q/Q Chg %	FQ3/10A	Y/Y Chg %
Revenue	57,110	49,066	8,044.0	48,022	19%	45,101	27%
Gross margin	77.7%	80.0%	-2.3%	81.6%	-5%	84.1%	-8%
EBITDA	20,808	14,661	6,146.6	17,629	18%	20,324	2%
Operating margin	31.0%	24.8%	6.2%	31.6%	-2%	42.2%	-26%
Net income	11,165	7,421	3,744.0	10,040	11%	12,540	-11%
Pro-forma EPS (fd)	0.27	0.18	0.09	0.24	11%	0.34	-21%
Paying Subs	22,500	20,400	2,100.0	19,600	15%	14,545	55%
ARPU	0.75	0.75	0.0	0.80	-6%	1.02	-26%
Consensus revenue	49,210						
Consensus EPS	0.18						

Source: Company reports, Thomson ONE and Canaccord Genuity

- Paying subs increased to 22.5M from 19.6M last quarter, representing 54% y/y and 15% q/q growth. Notable here is Sprint has recently started to bundle turn-by-turn into its Boost prepaid wireless subscribers.
- ARPU of \$0.71 vs. \$1.02 last year and \$0.80 last quarter. The decline was expected due to the shift in end-user growth to bundled offerings and, to a greater extent, the Sprint re-negotiation. Starting in FQ1/12, management will steer away from providing this metric.
- \$6.6M of revenue came from catch-up payments triggered by amendments to TNAV's Ford agreement executed in March 2011 that now recognizes revenue when vehicles including TNAV's on-board navigation product are produced vs. ratably over a multi-year period. The per-auto fee did not change, but the pace and timing of revenue recognition did, making this more of a "one-time" event. We believe the amended agreement does, however, provide for a larger opportunity within Ford going forward.
- Revenue from automotive, enterprise LBS, mobile advertising and ecommerce was 8% of total revenue in the quarter (excluding the Ford one-time payment) vs. 7% last quarter. Including revenue from the Ford contract, it was 19%. Exiting the June quarter, this segment should be approximately 13% of consolidated revenue, showing solid and continued progress.
- China Mobile is expected to formally launch its branded turn-by-turn services (powered by TNAV) across all of China in March 2012. China Mobile is moving from eight regional carrier trial to all 26 carriers covering all of China. Together with this roll-out, China mobile is lowering the overall cost to the end consumer and expects also to invest in marketing initiatives. It is difficult to determine the potential impact here, but we do note China Mobile has approximately 600M wireless subscribers today.

- Repurchased 674K shares in the quarter for \$7.4M. This was part of the \$20M stock repurchase plan authorized in November 2010.
- Cash and equivalents at the end of the quarter was \$211M, up from \$156M in FQ2/11. Net cash per share increased to \$4.68 from \$3.47 last quarter. CFO of \$64M in the quarter vs. \$28M last quarter and (\$1.9M) last year.
- FQ4/11E revenue/pro forma EPS guidance of \$52M-\$54M/\$0.18-\$0.20 vs. consensus of \$49.6M/\$0.17.
- F2011E revenue/pro forma EPS guidance of \$208M-\$210M/\$0.98-\$1.00 vs. consensus of \$198M/\$0.86 and previous guidance of \$195M-\$200M/\$0.79-\$0.83.

ESTIMATES

Our FQ4/11 estimate ticks up on the heels of the strong FQ3/11 report. Our revenue estimate goes to \$53M from \$50M, sitting at the midpoint of guidance, while our pro forma EPS estimate of \$0.20 (up from \$0.16) is at the high-end of guidance.

Our F2011 estimates were increased, as well, with our new revenue/pro forma EPS estimates of \$209M/\$0.98 falling in the mid/low-end of the guidance range. Our pro forma EPS estimate gets a bump up from both better revenue and gross margin assumptions.

Our F2012 estimates remain relatively unchanged, with the slight bump up in revenue and pro forma EPS being driven by the strong FQ3/11 report.

Figure 2: Estimate revisions

FYE June 30 (US\$000s, except per share)	Original FQ4/11E	Revised FQ4/11E	Original F2011E	Revised F2011E	Original F2012E	Revised F2012E
Total revenue	49,888	53,232	198,076	209,464	227,263	231,470
y/y growth	0.8%	7.5%	15.7%	22.4%	14.7%	10.5%
Gross Margin	77.0%	80.0%	80.3%	80.4%	75.8%	75.8%
EBITDA	13,832	16,165	68,810	77,289	76,912	77,972
margin	27.7%	30.4%	34.7%	36.9%	33.8%	33.7%
Operating Margin	22.0%	25.0%	29.8%	32.0%	28.0%	27.9%
Net Income	6,705	8,240	36,524	41,803	38,407	39,043
Pro-forma EPS (FD)	0.16	0.20	0.86	0.98	0.93	0.95
y/y growth	-38.2%	-24.0%	-24.0%	-12.8%	4.5%	-7.4%
Paying Subs	20,700	22,800	20,700	22,800	24,700	26,800
ARPU	\$0.73	\$0.73	\$0.81	\$0.80	\$0.70	\$0.70
Consensus revenue	49,600		198,420		217,520	
Consensus EPS	0.17		0.86		0.74	

Source: Thomson ONE and Canaccord Genuity

VALUATION AND RECOMMENDATION

Our new \$17 target (up from \$15.25) implies just 7x our new 2012 EV/EBITDA estimate and 12.5x our new 2012 adjusted EPS estimate, plus net cash per share. Both multiples are unchanged from prior valuation. Continued success in non-carrier revenues holds the potential to support higher valuation multiples in the future. Maintain BUY.

INVESTMENT RISKS

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

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Figure 3: Income statement

TeleNav, Inc. Consolidated Income Statement (US\$000, except per share)												
		140,651					193,733					
		25.6%	28.8%	23.3%	25.6%		26.4%	24.8%	25.9%	24.1%		
	FY09	FQ1/10 Sep-09	FQ2/10 Dec-09	FQ3/10 Mar-10	FQ4/10 Jun-10	FY10	FQ1/11 Sep-10	FQ2/11 Dec-10	FQ3/11 Mar-11	FQ4/11 Jun-11	FY11E	FY12E
Revenue	110,880	36,048	40,503	45,101	49,510	171,162	51,100	48,022	57,110	53,232	209,464	231,470
q-o-q growth		5.2%	12.4%	11.4%	9.8%		3.2%	-6.0%	18.9%	-6.8%		
y-o-y growth	130.7%	67.5%	60.4%	51.1%	44.5%	54.4%	41.8%	18.6%	26.6%	7.5%	22.4%	10.5%
Cost of Goods Sold	20,250	7,067	6,890	7,173	8,351	29,481	8,852	8,828	12,739	10,646	41,065	56,052
As a % of sales	18.3%	19.6%	17.0%	15.9%	16.9%	17.2%	17.3%	18.4%	22.3%	20.0%	19.6%	24.2%
Gross Profit	90,630	28,981	33,613	37,928	41,159	141,681	42,248	39,194	44,371	42,586	168,399	175,417
Gross margin	81.7%	80.4%	83.0%	84.1%	83.1%	82.8%	82.7%	81.6%	77.7%	80.0%	80.4%	75.8%
y-o-y growth	146.9%	65.6%	61.6%	54.5%	48.2%	56.3%	45.8%	16.6%	17.0%	3.5%	18.9%	4.2%
Research & Development	23,500	7,912	9,389	10,948	13,473	41,722	13,027	13,473	14,239	16,395	57,134	62,910
As a % of sales	21.2%	21.9%	23.2%	24.3%	27.2%	24.4%	25.5%	28.1%	24.9%	30.8%	27.3%	27.2%
Sales & Marketing	16,536	3,914	4,098	4,474	4,674	17,160	4,726	5,804	6,699	7,399	24,628	26,824
As a % of sales	14.9%	10.9%	10.1%	9.9%	9.4%	10.0%	9.2%	12.1%	11.7%	13.9%	11.8%	11.6%
General & Administrative	8,302	2,559	3,104	3,484	5,243	14,390	3,746	4,723	5,701	5,483	19,653	21,011
As a % of sales	7.5%	7.1%	7.7%	7.7%	10.6%	8.4%	7.3%	9.8%	10.0%	10.3%	9.4%	9.1%
Other Operating Expense/(Income)	0	0	0	0	0	0	0	0	0	0	0	0
Operating expenses	48,338	14,385	16,591	18,906	23,390	73,272	21,499	24,000	26,639	29,278	101,416	110,746
As a % of sales	43.6%	39.9%	41.0%	41.9%	47.2%	42.8%	42.1%	50.0%	46.6%	55.0%	48.4%	47.8%
Operating profit	42,292	14,596	17,022	19,022	17,769	68,409	20,749	15,194	17,732	13,308	66,983	64,672
Operating margin	38.1%	40.5%	42.0%	42.2%	35.9%	40.0%	40.6%	31.6%	31.0%	25.0%	32.0%	27.9%
y-o-y growth	784.6%	98.3%	82.3%	59.0%	30.3%	61.8%	42.2%	-10.7%	-6.8%	-25.1%	-2.1%	-3.5%
Other income (expense), net	(776)	(522)	212	(20)	(77)	(407)	197	248	305	200	950	400
Earnings before income tax	41,516	14,074	17,234	19,002	17,692	68,002	20,946	15,442	18,037	13,508	67,933	65,072
EBT margins	37.4%	39.0%	42.5%	42.1%	35.7%	39.7%	41.0%	32.2%	31.6%	25.4%	32.4%	28.1%
Provision for income tax	11,897	5,953	7,098	6,462	7,080	26,593	8,588	5,402	6,872	5,268	26,130	26,029
Tax rate	28.7%	42.3%	41.2%	34.0%	40.0%	39.1%	41.0%	35.0%	38.1%	39.0%	38.5%	40.0%
Net Income (loss)	29,619	8,121	10,136	12,540	10,612	41,409	12,358	10,040	11,165	8,240	41,803	39,043
Net margins	26.7%	22.5%	25.0%	27.8%	21.4%	24.2%	24.2%	20.9%	19.5%	15.5%	20.0%	16.9%
q-o-q growth		-21.4%	24.8%	23.7%	-15.4%		16.5%	-18.8%	11.2%	-26.2%		
y-o-y growth	543.1%	63.2%	47.7%	68.4%	2.7%	39.8%	52.2%	-0.9%	-11.0%	-22.4%	1.0%	-6.6%
Preferred dividends and other adjustments	13,899	3,762	4,496	5,562	1,676	15,496	1,952	1,586	1,763	1,301	6,602	6,166
Payout rate	46.9%	46.3%	44.4%	44.4%	15.8%	37.4%	15.8%	15.8%	15.8%	15.8%	15.8%	15.8%
Net Income (loss) to common	15,720	4,359	5,640	6,977	8,936	25,912	10,406	8,454	9,402	6,939	35,201	32,877
Net margins	14.2%	12.1%	13.9%	15.5%	18.0%	15.1%	20.4%	17.6%	16.5%	13.0%	16.8%	14.2%
EPS (common)												
Basic	1.40	0.23	0.29	0.36	0.32	1.16	0.29	0.24	0.27	0.19	0.99	0.91
Diluted	0.57	0.21	0.27	0.33	0.24	1.06	0.27	0.22	0.25	0.18	0.93	0.86
y-o-y growth	9678.7%	128.8%	103.4%	129.1%	-15.0%	86.9%	28.7%	-18.2%	-25.1%	-24.0%	-12.8%	-7.4%
Consensus EPS												
Pro-forma EPS (incl. SBC)												
Basic	1.43	0.24	0.30	0.37	0.34	1.24	0.31	0.26	0.29	0.21	1.05	1.01
Diluted	0.58	0.22	0.27	0.34	0.31	1.14	0.29	0.24	0.27	0.20	0.98	0.95
Weighted avg. shrs out. (000s)												
Basic	11,253	11,557	11,527	13,256	27,624	15,991	42,151	42,119	41,919	42,800	42,247	42,800
Fully diluted	27,648	28,421	28,833	33,158	37,481	31,973	44,939	44,894	45,181	45,500	45,129	45,500

Source: Company reports and Canaccord Genuity

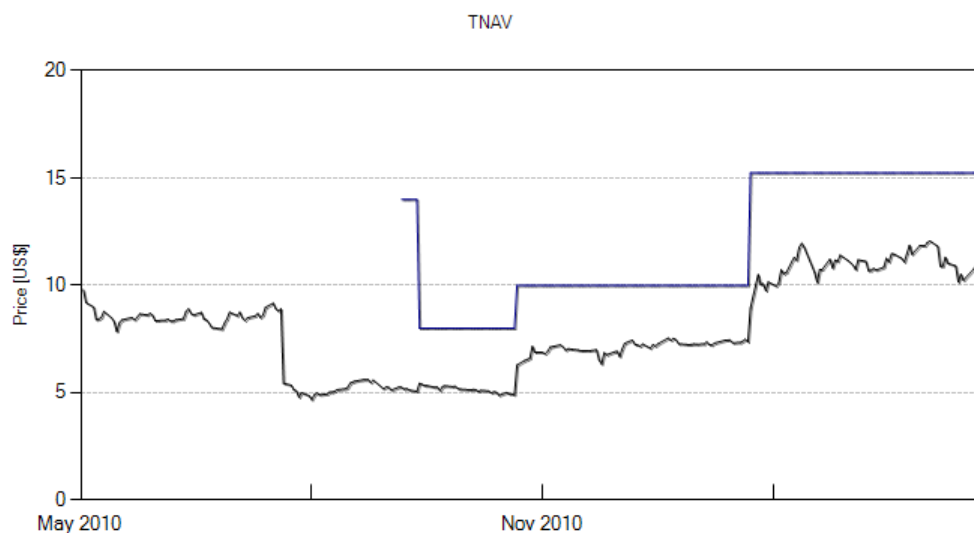
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Market Price				Target Price			
Date	Analyst	Rating	Target Price	Date	Analyst	Rating	Target Price
1) 07/30/2010	Rath	Buy	14.00	3) 10/29/2010	Rath	Buy	10.00
2) 09/21/2010	Rath	Buy	8.00	4) 01/28/2011	Rath	Buy	15.25

*Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

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Global Stock Ratings
(as of 5 April 2011)

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	#	%	#	%
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Speculative Buy	61	8.0%	51	68.9%
Hold	231	30.4%	16	16.5%
Sell	17	2.2%	3	5.9%
	761	100.0%		

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TeleNav	1A, 2, 3, 5, 7
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