

27 January 2011

TeleNav

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

FYQ2 Results

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Telenav reported 2QFY10 revenue of \$48.0 million ahead of our estimate of \$46.9 million and consensus of \$46.2 million; pro-forma EPS of \$0.24 came in well ahead of the street's and our estimate of \$0.17. We remain cautious on the company as it transitions to new revenue models. Hold.

Improvements in customer concentration

The company added almost 2 million new subscribers during the quarter. Customer concentration at AT&T and Sprint also fell sequentially. We are encouraged by the growth at T-Mobile US and US Cellular as well. This was the first quarter under the new Sprint contract and there were some signs that premium pricing models there can generate upside over the fixed terms.

New revenue legs progressing, albeit slowly

The company's various growth legs progressed with international now contributing 4% of revenue. Telenav's mobile ad platform is now live, and while revenue contribution is still minor, click-through and ad rates hold promise. Location-based and local advertising hold increasing promise and should the company find a good model here they have the potential to unlock substantial value.

Raising estimates and price target from \$5 to \$8, maintain Hold rating; risks

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 15% discount rate (using a 5.5% risk free rate, a beta of 1.4 and risk premium of 7%). Downside risks include the threat of continued competition from free navigation providers such as Google. Upside risks include the potential for increased ramp in premium services and a better than advertising results from Sprint customers in 2011.

Forecasts and ratios

Year End Jun 30	2010A	2011E
1Q EPS ¹	0.02	0.29A
2Q EPS	0.23	0.24
3Q EPS	0.31	0.18
4Q EPS	0.31	0.17
FY EPS (USD)	1.10	0.88
OLD FY EPS (USD)	1.10	0.75
% Change	0.0%	17.4%
P/E (x)	7.8	8.4
Revenue (USDm)	171.2	197.0

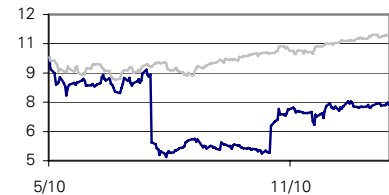
Source: Deutsche Bank estimates, company data

¹ Includes the impact of FAS123R requiring the expensing of stock options.**Forecast Change****Hold**

Price at 26 Jan 2011 (USD)	7.49
Price target	8.00
52-week range	9.80 - 4.68

Key changes

Price target	5.00 to 8.00	↑	60.0%
EPS (USD)	0.75 to 0.88	↑	17.4%
Revenue (USDm)	190.1 to 197.0	↑	3.6%

Price/price relative

Performance (%)	1m	3m	12m
Absolute	-2.4	49.2	-
S&P 500 INDEX	3.3	9.9	18.4

Stock & option liquidity data

Market Cap (USDm)	312.8
Shares outstanding (m)	42.4
Free float (%)	100
Volume (26 Jan 2011)	79,833
Option volume (und. shrs., 1M avg.)	-

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Model updated: 29 October 2010

Running the numbers**North America****United States****Wireless Equipment****TeleNav**

Reuters: TNAV.OQ

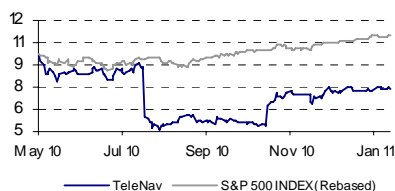
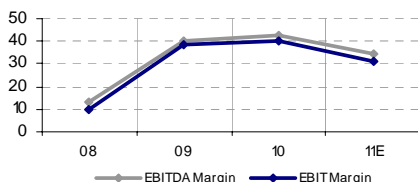
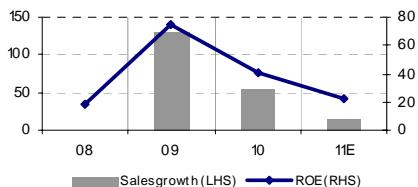
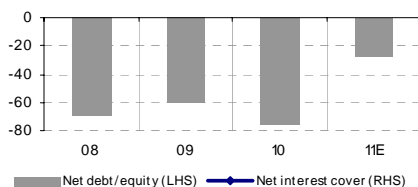
Bloomberg: TNAV US

Hold

Price (26 Jan 11)	USD 7.49
Target price	USD 8.00
52-week Range	USD 4.68 - 9.80
Market Cap (m)	USDm 313 EURm 228

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	2010	2011E
DB EPS (USD)	0.02	0.07	1.10	0.88
Reported EPS (USD)	0.01	0.09	1.34	0.83
DPS (USD)	0.00	0.00	0.00	0.00
BVPS (USD)	0.18	0.40	9.57	4.44

Valuation Metrics

Price/Sales (x)	nm	nm	0.8	1.6
P/E (DB) (x)	na	na	7.8	8.4
P/E (Reported) (x)	na	na	6.4	8.9
P/BV (x)	0.0	0.0	0.9	1.7
FCF yield (%)	na	na	26.0	18.0
Dividend yield (%)	na	na	0.0	0.0
EV/Sales	nm	nm	0.1	0.7
EV/EBITDA	nm	nm	0.3	2.1
EV/EBIT	nm	nm	0.3	2.4

Income Statement (USDm)

Sales	48	111	171	197
EBITDA	6	45	74	69
EBIT	5	42	68	61
Pre-tax profit	5	42	68	62
Net income	5	30	41	38

Cash Flow (USDm)

Cash flow from operations	0	24	44	62
Net Capex	-2	-8	-10	-6
Free cash flow	-2	16	35	56
Equity raised/(bought back)	0	0	43	-2
Dividends paid	0	0	0	0
Net inc/(dec) in borrowings	0	0	0	0
Other investing/financing cash flows	0	0	2	-114
Net cash flow	-2	16	80	-60
Change in working capital	-11	-9	-13	10

Balance Sheet (USDm)

Cash and cash equivalents	17	33	113	52
Property, plant & equipment	3	7	10	8
Goodwill	0	0	0	0
Other assets	16	32	51	165
Total assets	36	72	174	225
Debt	0	0	0	0
Other liabilities	12	17	25	36
Total liabilities	12	17	25	36
Total shareholders' equity	24	55	149	189
Net debt	-17	-33	-113	-52

Key Company Metrics

Sales growth (%)	nm	130.7	54.4	15.1
DB EPS growth (%)	na	333.8	1,526.3	-20.4
Payout ratio (%)	0.0	0.0	0.0	0.0
EBITDA Margin (%)	13.1	40.3	43.0	34.8
EBIT Margin (%)	9.9	38.1	40.0	31.0
ROE (%)	18.9	74.8	40.6	22.2
Net debt/equity (%)	-69.1	-60.5	-75.7	-27.6
Net interest cover (x)	nm	nm	nm	nm

DuPont Analysis

EBIT margin (%)	9.9	38.1	40.0	31.0
x Asset turnover (x)	1.3	2.0	1.4	1.0
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	33.7	18.8
x Financial leverage (x)	1.5	1.4	1.2	1.2
= ROE (%)	18.9	74.8	40.6	22.2
annual growth (%)	na	296.4	-45.7	-45.3
x NTA/share (avg) (x)	0.1	0.1	3.3	3.7
= Reported EPS	0.01	0.09	1.34	0.83
annual growth (%)	na	523.3	1,408.6	-38.3

Source: Company data, Deutsche Bank estimates

Telenav reported 2QFY10 revenue of \$48.0 million ahead of our estimate of \$46.9 million and consensus of \$46.2 million; pro-forma EPS of \$0.24 came in well ahead of the street's and our estimate of \$0.17.

Telenav's main customers, Sprint and AT&T, respectively represented 45% and 40% of the revenue. The AT&T contract was renewed with no change to the terms, which means it is still a revenue sharing agreement. T-mobile and US cellular accounted for 9% of revenues.

The company saw continued improvement in its mobile advertising platform. The click through rate was 3.6% and for those who clicked, the drive through rate was over 24%. In addition, the company continues to leverage its core customer area to grow revenue from premium navigation, automotive and enterprise LBS. This segment accounted for less than 5% of revenues in the prior year and now accounts for 7% of revenues.

The company increased its monthly paid subscribers to 19.6 million, up from 17.7 million in the prior quarter and 12.7 million in the prior year.

Guidance

The company guided earnings of \$0.16 to \$0.18 per share for FYQ3, ahead of the street and our expectations of \$0.16. The company also revised its full year guidance upward, saying revenue would be between \$195 and \$200 million and non-GAAP earnings would be between \$0.84 and \$0.88 per share. This is above the street and our revenue estimate of \$190 million. The EPS estimate is above the street estimate of \$0.56 and our estimate of \$0.75.

Financials

The company generated \$28.5 in cash from operations and increased their cash position to 155.7 million. During the quarter the company repurchased 328,000 shares, bringing shares outstanding to between 45 and 46 million.

Conclusion

Telenav continues to generate solid quarters. The company beat our estimates across most metrics. This was the first full quarter under the new Sprint agreement. Under this, Sprint pays Telenav a fixed fee regardless of subscriber adds. This has been a meaningful overhang on the stock and a factor which puts a dent in their revenue growth for the year. However, even on this front there were signs of positive trends. The company generated some revenue from premium subscriptions with Sprint subscribers, this is still relatively small but bodes well for the company's long-term growth.

The chief concern we have with Telenav, and a key issue we hear from investors, is the high level of customer concentration. Sprint contributed 45% of revenue and AT&T 40%, and as we saw two quarters ago large carrier customers are not afraid to throw their weight around. We saw two encouraging signs on this front. The first, the company announced they have renewed their AT&T contract for two years under existing terms. We were concerned that AT&T would follow Sprint's lead and seek better terms from Telenav. That has not come to pass. Secondly, revenue concentration has come down to 85% in Q2 from 87% in Q1 and >90% a year ago. The other legs of the company's business all advanced a bit, with international revenue now up 4%. The new carrier customers, T-Mobile US and US Cellular, now contribute 9% of revenue which is a strong showing for relationships less than a year old.

Going forward we will be watching two factors. First, can the company return to positive operating leverage? In a SaaS model, contribution margins from each incremental customer should be highly positive. For Telenav, the new Sprint model and ongoing R&D costs, mean that operating leverage is not apparent, and we still do not have the company growing

earnings in FY12. However, there are some signs that by FY 13 (which we are not yet modeling) should see a return to earnings growth. The Sprint contract remains a sore spot, but we are comfortable with the company's R&D investments. A second focus will be the company's ability to diversify and grow revenue. As noted above, there are early signs that this is proceeding slowly. The big question here will be can the company's ad platform gain traction. We had not expected any meaningful contribution from this until FY12, and see no change to that. However, location-based services continues to be an important area of interest in the Web community. Telenav has some very powerful data that with time they should be able to monetize. On the call, they noted that they have one of the largest databases of real-time traffic nodes in the form of almost 20 million active users pinging their network. Many companies are searching for viable business models here and the success of local advertising websites such as Groupon point to the strong interest in successful platforms. It remains unclear whether Telenav can find a successful model in this domain, but they would hold significant value if and when they can unlock that model.

We remain cautious pending further signs of resolving this issue and thus reiterate our Hold rating.

In line with the company's latest guidance, we are raising our estimates as follows:

3Q11 was \$46m and \$0.16, is \$49m and \$0.17

4Q11 was \$45m and \$0.13, is \$49m and \$0.17

FY11 was \$190m and \$0.75, is \$196m and \$0.88

FY12 was \$193m and \$0.65, is \$207m and \$0.81

CY11 was \$182m and \$0.51, is \$196m and \$0.69

Risks & Valuation

We are raising our price target from \$5 to \$8 in line with our revised estimates. 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 15% discount rate (using a 5.5% risk free rate, a beta of 1.4 and risk premium of 7%).

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. We would also see upside risk should the company's mobile ad platform take off sooner than expected.

Appendix 1

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Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
TeleNav	TNAV.OQ	7.37 (USD) 27 Jan 11	2

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

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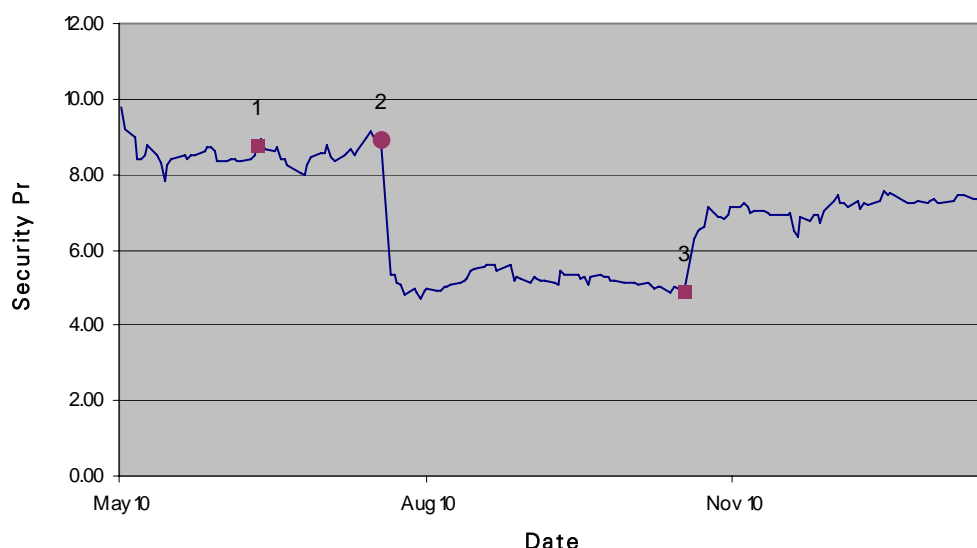
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Historical recommendations and target price: TeleNav (TNAV.OQ)

(as of 1/27/2011)

Previous Recommendations

Strong Buy
Buy
Market Perform
Underperform
Not Rated
Suspended Rating

Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

*New Recommendation Structure
as of September 9, 2002

- | | |
|--|--|
| 1. 6/23/2010: Buy, Target Price Change USD12.00 | 3. 10/29/2010: Hold, Target Price Change USD5.00 |
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Equity rating key**Equity rating dispersion and banking relationships**

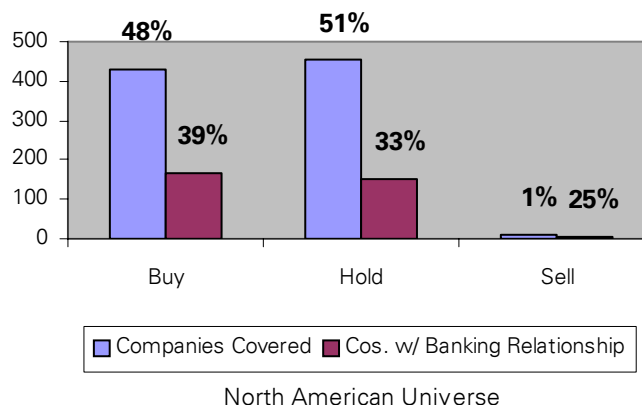
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