

## Hum Network Limited

### Humming their way to success

We initiate coverage on Hum Network Limited (HUMNL) with a Dec'22 target price of PKR 17.5/share, offering a noteworthy upside of 114% from current levels. Our liking for the stock is hinged upon i) solid brand presence in the domestic entertainment business, ii) consistent growth in the company's digital audience whereby earnings are USD denominated, iii) augmented income from the company's news channel in lieu of revised advertisement rates post improvement in distribution and ranking, and iv) attractive valuations amongst regional and global peers. We project the company to generate a 3-yr forward earnings CAGR of 40%. Hence, we recommend a strong 'BUY' on the scrip. Currently the stock is trading at an attractive FY23F / FY24F PER of 3.6x / 3.1x.

#### Hum TV: "Leadership commitment to entertain"

Over the years, Hum Network's flagship TV channel – Hum TV – has acclimated itself with the times. As per Aurora, Hum TV remains the third largest channel in terms of ranking and market share in the country, whereby some of its shows have broken many TRP records in the past few years. Moreover, initiatives such as award shows in foreign countries have also warmed up overseas Asian communities to its content. As a result, we forecast advertisement revenue from the channel to grow at a 3-yr forward CAGR of 13% by FY24.

#### Hum News: Rising from the ashes

HUMNL launched its news channel in 2018, where the first few years remained particularly tough; the company incurred significant distribution expenses and the government drastically cut campaign rates of the public sector on Television. Moreover, the PKR lost 30% against the USD in 2018-19 and coupled with the advent of COVID in 2020, advertisement revenue of several large organizations faced an axe. Albeit, the company's efforts to improve its outreach has finally borne fruit. Ranking of the channel has jumped up from 16 in 2018 to number 5 at present, rendering it to be a Tier 1 channel, which has significantly improved its cost per rating point (CPRP). We project advertisement revenue from Hum News to grow at a 3-yr forward CAGR of 75%.

#### A new wave of Digital Media and Internet Penetration

Similar to its television presence, Hum TV has the third largest drama channel account on YouTube, with over 20mn subscribers. This has altogether opened up a new revenue stream for the company. HUMNL generates USD denominated income from its social media monetization based on three factors: i. Number of subscribers, ii. Views per video, and iii. Duration of views. Higher views can then attract advertisement revenue. Given the pace of internet penetration in the country and the growth in subscribers, we forecast the company's subscription income to achieve a 3-yr forward CAGR of 41%.

#### Relatively well priced

With HUMNL projected to post earnings of PKR 2.3/share and 2.7/share in FY23 and FY24, the stock currently trades at a cheap PER of 3.6x and 3.1x, respectively. The scrip also appears attractive compared to other global peers which trade at a PER 19.0x, hence offering a discount of 81% on forward earnings. The stock also offers an alluring dividend yield of 15% (FY23).

#### Exhibit 1: Valuation Snapshot

		FY21A	FY22E	FY23F	FY24F
EPS	PKR	1.0	1.49	2.27	2.70
DPS	PKR	-	0.50	1.25	1.25
P/E	x	8.2	5.5	3.6	3.1

Source (s): Company Financials, AHL Research

### HUMNL PA

#### Summary Data

Target Price (Dec'22)	17.5
Current Price	8.2
Upside (%)	113.6%
Shares (mn)	945.0
Free float (%)	50.0
Market Cap. (PKR mn)	7,758
Market Cap. (USD mn)	42

#### Major Shareholders

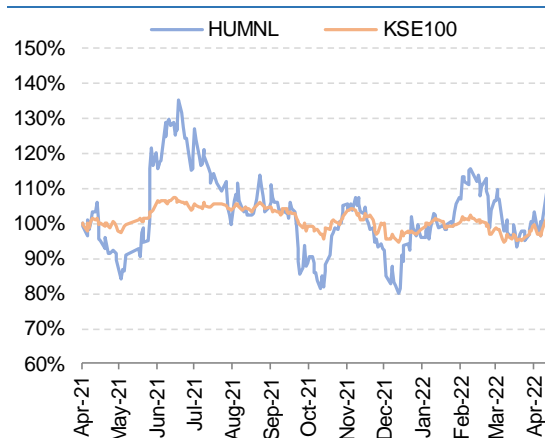
Duraid Qureshi

#### Recommendation

BUY

	3M	6M	12M
Return (%)	22.2	23.1	32.8
Avg. Volume (000)	8,032	9,262	13,903
High Price - PKR	8.2	8.2	9.1
Low Price - PKR	6.3	5.4	5.4

#### Relative Performance



Source (s): PSX, AHL Research

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### Valuation

We have valued HUMNL using DCF-based valuation whereby our Dec'22 target price is set at PKR 17.5/share, which translates into an upside potential of 114% from last closing of PKR 8.2/share. Our valuation parameters include 3-yr adjusted beta of 1.2x, risk free rate of 12.5% and a risk premium of 6.0%, which gives a cost of equity of 19.5%. Currently the stock is trading at FY23 and FY24 P/E of 3.6x and 3.1x, respectively. Hence, we recommend 'BUY' on the scrip.

#### Exhibit 2. Valuation criteria

Risk Free Rate	12.5%
Risk Premium	6.0%
CoE	19.5%

Source (s): AHL Research

#### Exhibit 3. Valuation Snapshot

PKR mn	FY23	FY24	FY25	FY26	FY27
Profit after tax	2,140	2,539	2,804	3,078	3,437
Add: Depreciation	190	211	234	256	280
Net Debt	(259)	0	(4)	-	-
Capital Expenditure	(116)	(243)	(260)	(257)	(268)
▲ in Working Capital	(263)	(516)	(301)	(476)	(395)
Free Cash Flow to Equity	1,693	1,992	2,473	2,602	3,055
Discounted Factor	0.92	0.77	0.64	0.54	0.45
Discounted Cash Flows	1,550	1,525	1,585	1,395	1,371
PV of Future Cash Flows	7,427				
PV of Terminal Value	8,565				
Surplus Cash	582				
Equity Value	16,574				
Outstanding shares (mn)	945				
Target price per share	17.54				

Source (s): Company Financials, AHL Research

## Hum Network Limited

### About the company

Hum Network Limited (HUMNL) is a Pakistani Electronic Media Company incorporated in 2004. It launched its flagship Hum TV channel - which is a 24-hour entertainment channel in the Urdu language – in 2005. Today, the company has a network of transnational satellite channels including Masala TV (Pakistan's first cooking channel), Hum News, Hum Sitaray, Style 360, Hum Europe, Hum World and Hum MENA.

The network has also organized many awards and festive events outside of Pakistan. Whereas it's social media presence, through its YouTube channel subscription, as well as FB and Instagram followers, has enabled it to become a household name in the overseas Asian diaspora.

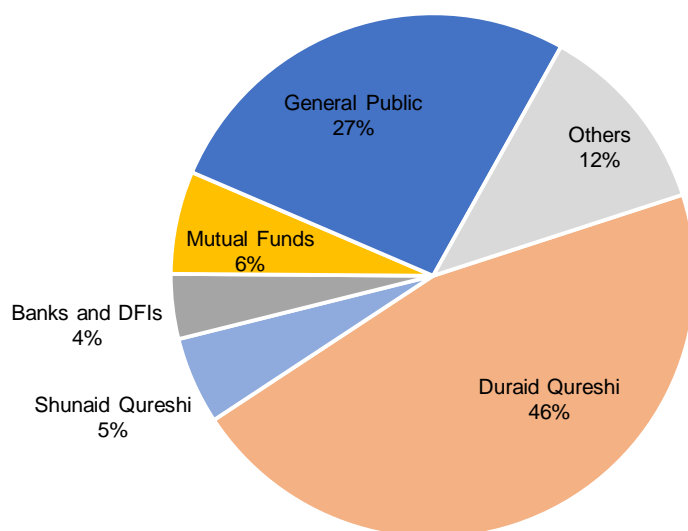
Pertinently, through a stock exchange notice, Mr. Duraid Qureshi (CEO), had offered to acquire 332,146,260 ordinary shares (35.15% of the free float) of the company during Dec'21. The public tender expired in Feb'22 whereby the company received offers to purchase 202,580,000 shares and accepted all i.e. 61% of the initial offer.

#### Exhibit 4. Shareholding Pattern (as of Mar'22)

	No. of Shares	% Holding
Duraid Qureshi	432,202,000	45.7%
Shunaid Qureshi	50,865,620	5.4%
Banks and DFIs	37,789,772	4.0%
Mutual Funds	59,878,342	6.3%
General Public	251,839,993	26.6%
Others	112,424,273	11.9%
<b>Total</b>	<b>945,000,000</b>	

Source (s): AHL Research

#### Figure 1. Shareholding Pattern (as of Mar'22)



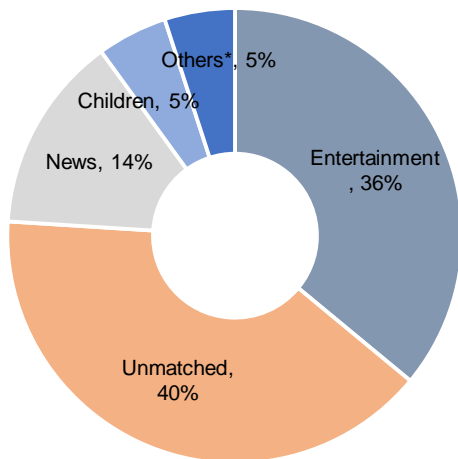
Source (s): AHL Research

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### Hum TV: Perpetually fortifying the HUM brand

Hum TV – the flagship channel of Hum Network – was launched in 2005, and in a short span of 11 years has become a pioneer in the entertainment business in the country. Given the Pakistani television audience prefers entertainment viewership, which makes up 36% of the total television viewership in the country (please refer to the chart below), followed by news (14%) and children's channels (5%), Hum TV has managed to retain its spot in the top most viewed channels in the country.

**Figure 2. TV Viewership (Audience Share By Type)**



Source (s): AURORA, AHL Research

\*includes, Sports 2%, Movies 1%, Music 0.7%, Regional 0.7%, Cooking 0.4%, Religious 0.2%

As per Aurora, in the past two years, Hum TV's market share and ranking has been amongst the top 10 entertainment channels in the country. With a 13% market share in 2021, the company retains its 3<sup>rd</sup> most watched entertainment channel ranking. Please check the tables below.

**Exhibit 5: Top 10 Entertainment Channels - Market Share**

Share	FY21	FY20
Geo Entertainment	28%	25%
ARY Digital	24%	27%
<b>Hum TV</b>	<b>13%</b>	<b>15%</b>
Bol Entertainment	9%	5%
Express Entertainment	5%	4%
PTV Home	4%	2%
Geo Kahani	3%	6%
A Plus	2%	4%
Urdu 1	2%	2%
Aaj Entertainment	2%	2%
Others	8%	8%

Source (s): AURORA, AHL Research

**Exhibit 6: Top 10 Entertainment Channels - Ranking**

Ranking	FY21	FY20
Geo Entertainment	1	2
ARY Digital	2	1
<b>Hum TV</b>	<b>3</b>	<b>3</b>
Bol Entertainment	4	5
Express Entertainment	5	6
PTV Home	6	9
Geo Kahani	7	4
A Plus	8	7
Urdu 1	9	8
Aaj Entertainment	10	10

Source (s): AURORA, AHL Research

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This has been possible due to quality content creation. Writing has been the core strength of drama's produced and aired by the channel. As a result, Hum TV production has opened up new markets for Pakistani dramas, which are aired on cable television channels in United Kingdom, Norway, United States, and Canada. These are also massively popular in countries such as India, Afghanistan, Bangladesh, and among the Pakistani diaspora in UAE and around the globe. Moreover, Hum TV is now also available in the Sub-Saharan Africa, in countries such as Kenya, Tanzania, Uganda, Malawi and Zambia.

Moreover, the Hum network has organized various award shows abroad, and has also produced many films in the past few years to revive the domestic cinema, resulting in augmented viewership amongst the South Asian diaspora. Given the aforementioned, the group has 3 foreign subsidiaries in the UK, USA and UAE whereby it generates revenue through programs aired abroad. Moreover, the company has direct carrier contracts in various territories such as with Sky in UK and Europe; with Dish and Sling in USA; with Etisalat and DU in UAE; with Ooredoo in Qatar; and with ROGERS, BELL, COGECO, and Telus in Canada, amongst others.

Therefore, with record high TRP's posted in various prime time shows, Hum TV has been a direct beneficiary of rising advertisement revenue. We would like to highlight that over the past 5 years, advertisement spending in the country through television has been the highest at PKR 34bn, following by digital (PKR 17bn) and print (PKR 12bn). Please check the table below.

### Exhibit 7: Advertising Spending

PKR bn	FY21	FY20	FY19	FY18	FY17	FY16
<b>TV</b>	<b>34.0</b>	<b>26.0</b>	<b>28.0</b>	<b>38.0</b>	<b>42.0</b>	<b>38.0</b>
Print	12.4	9.5	13.5	19.5	20.0	18.0
Digital	16.8	13.7	10.5	8.0	5.5	4.5
OOH	8.5	6.0	8.4	7.0	11.8	8.9
Radio	1.3	1.0	1.8	2.5	3.0	2.8
Cinema	0.1	0.3	0.5	0.6	0.4	-
Brand Activation	2.5	2.3	4.5	6.0	5.0	4.0
<b>Total</b>	<b>75.6</b>	<b>58.6</b>	<b>67.2</b>	<b>81.6</b>	<b>87.7</b>	<b>76.2</b>

Source (s): AURORA, AHL Research

As one of the most viewed channels in the country, Hum TV, which plays Ad's for over 15 minutes per hour, has been able to attract some of the best advertisement rates in the country. As population grows past 220mn, and Pakistan is set to witness rapid urbanization amid various initiatives underway such as Reko Diq which will commence a new phase of development in Baluchistan alongside construction of dams across the country, we believe consumption of entertainment via television will only grow from here.

We do clarify that advertisement revenue of the company suffered in the past due to a cut in advertisement spending in lieu of the free fall in our currency during 2018-2019, as well as the COVID-19 outbreak which caused many large private sector organizations to slash marketing budgets (historic 3-yr CAGR of -4%). Albeit, this has now largely been dealt with. Earnings of most companies in Pakistan has shown tremendous growth; KSE-100 index posted the highest ever annual profitability in CY21 (+47% YoY), which also signals augmented marketing budgets. Higher ratings of Hum TV will be monetized via revision in advertisement rates as measured through cost per rating point (CPRP), and target marketing in the New Year which is estimated to help push up Hum TV's advertisement revenue; we forecast it to grow at a 3-yr forward CAGR of 13% by FY24.

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### Hum News: Onto Tier 1 status

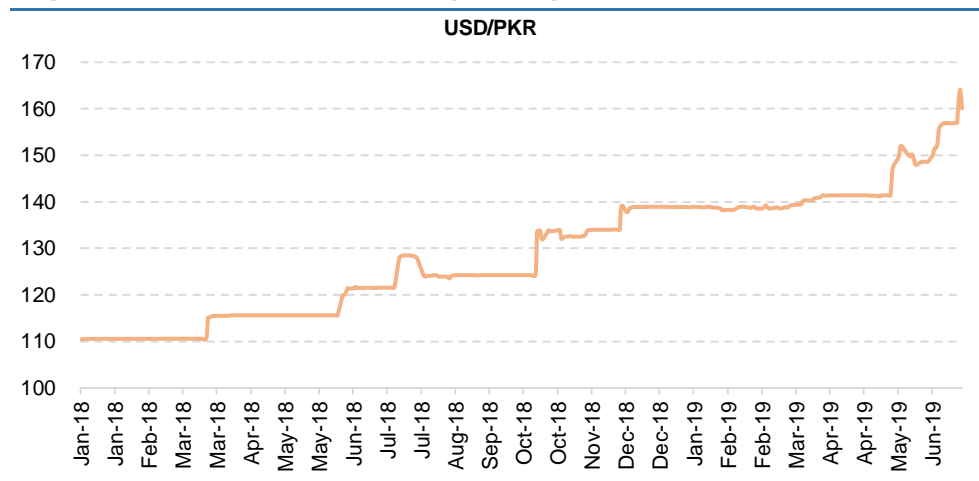
Hum News, owned by HUMNL, was launched in 2018 as one of Pakistan's 24-hour Urdu news channels. The channel is a business unit of Hum Television Network.

Like most news channels in the country, Hum News endured a tough few years recently. As a new channel in 2018, Hum News incurred significant distribution expenses which were necessary to ensure its outreach becomes mainstream.

Moreover, in 2019 the government decided to undertake austerity measures and slashed the campaign rates of the public sector on Television. As per the Ministry of Information and Broadcasting, rate per campaign during peak hours / prime time was cut.. Whereas post elections, the quantum of campaigns went down as well.

In addition, the Pak Rupee lost a massive 24% in FY19 against the Greenback (graph attached below) which, coupled with the advent of COVID-19 in early 2020, forced several MNC's and large private sector organizations to roll back on marketing budgets.

**Figure 3. PKR Depreciated 24% during FY19 against US Dollar**



Source (s): SBP, AHL Research

Given the aforementioned, the mere thought of survival took center stage and therefore, news channels lost air time for Ad campaigns and consequentially, revenues dropped in the previous few years.

Albeit, things have turned around in the past year. Hum News in particular invested heavily in spreading its transmission network during earlier years, ensuring it becomes mainstream. As a result, it is now a Tier 1 channel in the country based on rankings and market share. Just a few years back, the channel had a ranking of number 16 which has now jumped up to number 8 in 2021. As per Aurora, market share of the channel has been on the rise too; from 3% in 2020 to 4% in 2021. Please check the tables on next page. Moreover, current rating of Hum News has climbed even higher amongst local news channels to number 5.

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**Exhibit 8: Top 10 News Channels - Market Share**

Share	FY21	FY20
Geo News	16%	16%
ARY News	12%	14%
Dunya News	9%	9%
Express News	9%	8%
Samaa	8%	8%
92 News	6%	5%
Dawn News	4%	4%
<b>Hum News*</b>	<b>4%</b>	<b>3%</b>
GNN	4%	3%
Bol News (Urdu)	4%	3%
Others*	24%	27%

Source (s): AURORA, AHL Research

\*Hum News was part of others previously

**Exhibit 9: Top 10 News Channels - Ranking**

Ranking	FY21	FY20
Geo News	1	1
ARY News	2	2
Dunya News	3	3
Express News	4	4
Samaa	5	5
92 News	6	6
Dawn News	7	7
<b>Hum News*</b>	<b>8</b>	<b>8</b>
GNN	9	9
Bol News (Urdu)	10	10

Source (s): AURORA, AHL Research

\*Hum News has a current ranking of 5 / ranking of 16 in 2018

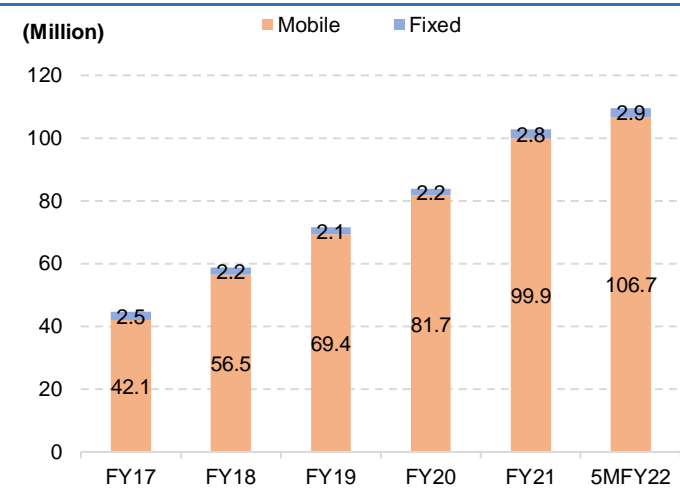
This has impressively improved the company's cost per rating point (CPRP), a benchmark for Ad revenue in the marketing world. This entails the simple formula of: higher views are equal to higher advertisement rates. Not only have these been increased for the private sector, the government's rate for campaigns were also augmented from the 2019 level.

In a notice disseminated to the stock exchange in Dec'21, the company shared a material information that public sector advertisement rates for Hum News have been revised by the Ministry of Information and Broadcasting to PKR 140,000/minute from PKR 100,000/minute previously. This, coupled with the growth anticipated in private sector rates amid augmented viewership, is set to aid advertisement revenue of Hum News to grow at a 3-yr forward CAGR of 75% till FY24 against the past 3-yr CAGR of 229%.

## Social Media: The alpha growth medium

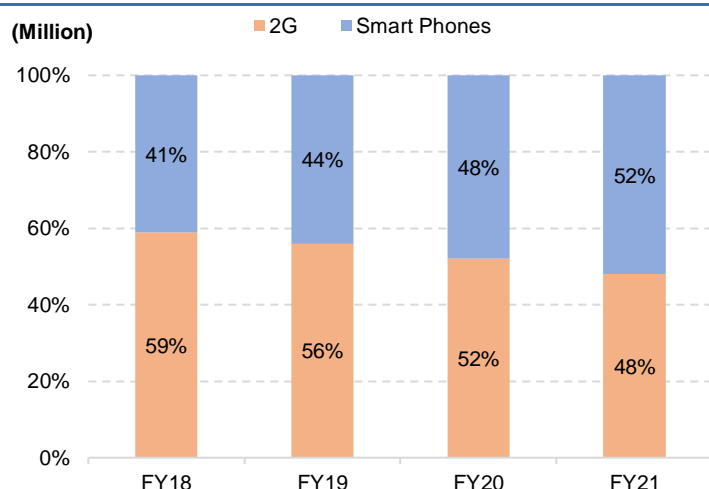
Social media platforms play a crucial role in aiding HUMNL's profitability. This has been a result of rising internet penetration in the country, which signals that Pakistan will remain a fast-growing and profitable digital market. To put things into perspective, as per PTA, broadband subscribers in the country achieved a 3-yr historic CAGR of 20% to 102.7mn till FY21, whereas they have climbed up to 109.6mn in 5MFY22. While smart phone penetration, although on the rise, is still just 52% of the total phone usage in the country, indicating a much wider scope for consumption of digital content. Please check the graphs below.

**Figure 4. Broadband Subscribers**



Source (s): PTA, AHL Research

**Figure 5. Smart Phones Penetration**



Source (s): PTA, AHL Research

We also highlight that deployment of 3G and 4G has been key for social media penetration. In addition, augmented localization in mobile phone assembly and greater competition in the cell phone market, has made access to cheaper smart phones much easier. As penetration of smart phones goes up, so does consumption of social media.

All of this has aided the significant following of HUMNL on various social media platforms; Fb followers at 11mn at present, 3.7mn Instagram followers and a mammoth 20.1mn followers on YouTube have allowed Hum TV content to be just a click away.

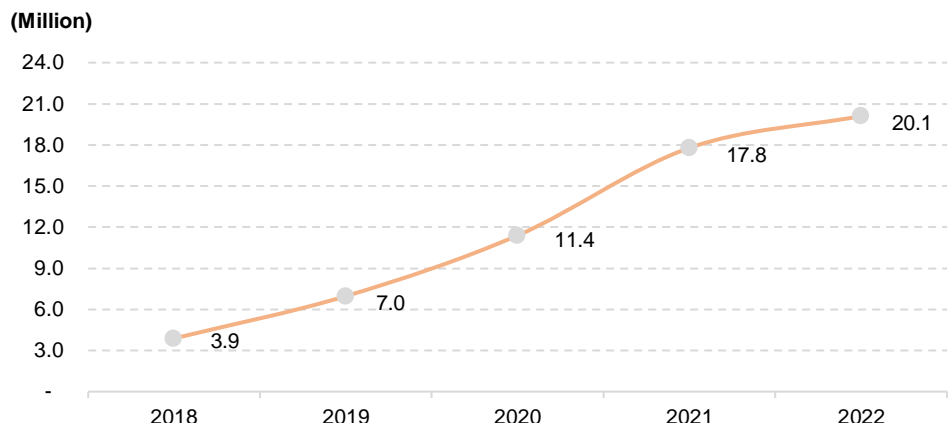
This is a game changer for the company. Monetization through YouTube subscription has been crucial in supporting advertisement revenue of the company. Mimicking the television ranking, Hum TV's social media ranking remains impressive as well. It is the third largest Pakistani drama channel account on YouTube.

For context, HUMNL's subscribers had grown at a 3-yr historic CAGR of 66% to 17.7mn tons in FY21, while current subscribers have jumped up to over 20.1mn, depicting a growth of 2.3mn (+13%) in YTD. Please check the graph below.



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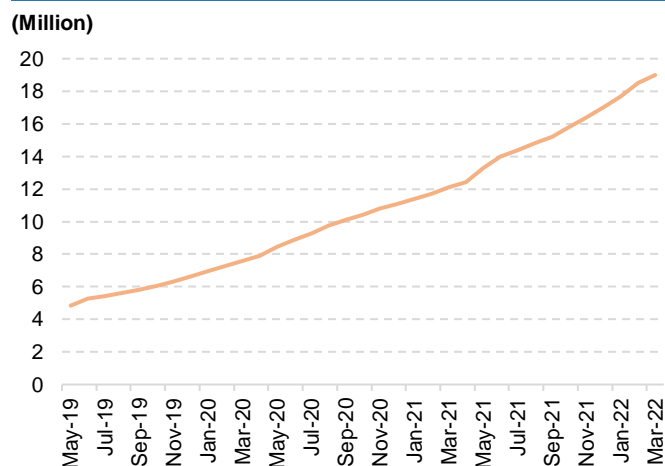
**Figure 6. Hum TV YouTube Subscribers**



Source (s): AHL Research

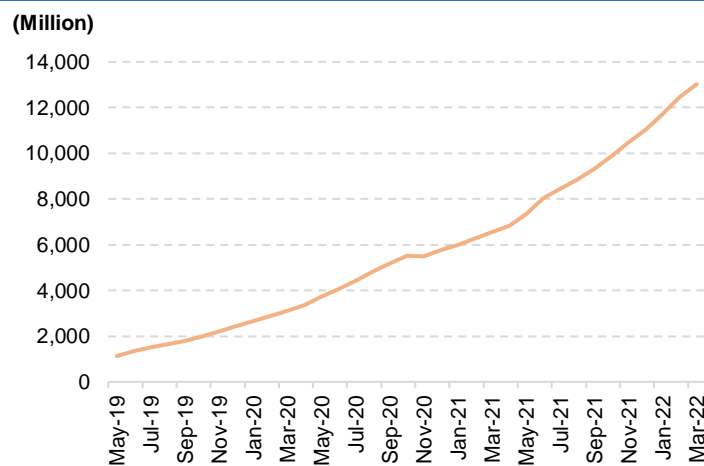
This reinforces the quality of content created at Hum TV, which has become accessible across the globe through YouTube. As per Tubefilter Inc., a private company based in Los Angeles, California, researching the online entertainment industry, Hum TV remained in the Top 50 most viewed YouTube channels worldwide in the past month. Hum TV views at present have touched over 14bn on YouTube, with approximately 4bn views in a single year alone (2021). Moreover, Social Blade - an American website created in 2008, to track social media statistics and analytics - shows how sharply subscribers and views rose on Hum TV's YouTube account in the past year. Please find the graphs below.

**Figure 7. Total Subscribers for HUM TV**



Source (s): Social Blade, AHL Research

**Figure 8. Total Video Views for HUM TV**



Source (s): Social Blade, AHL Research

Monetization via YouTube is USD denominated which will not only trigger growth as ranking / views go up, it will also protect against adverse movement in the parity. Revenue is generated based on three factors: i. Number of subscribers, ii. Views per video, and iii. Duration of views. Moreover, once views go up, videos can then generate additional revenue through advertisement breaks.

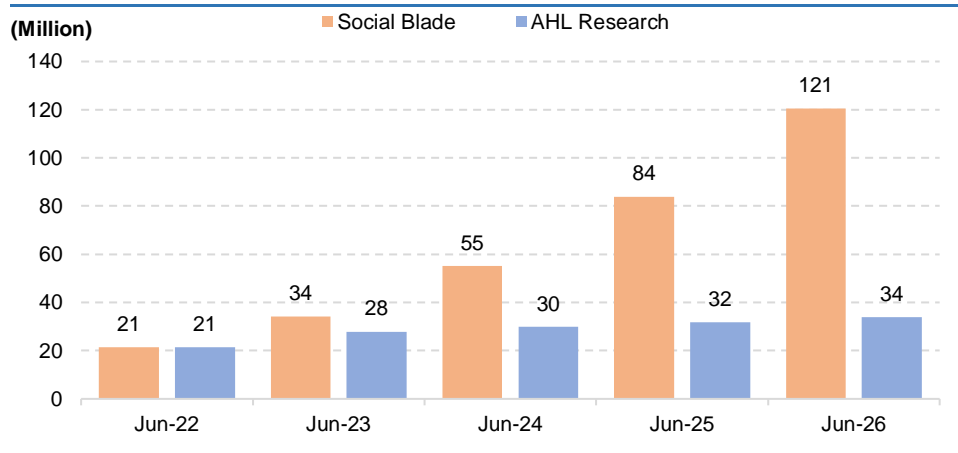
Pertinently, local companies are paid nearly USD 0.6 per 1,000 subscribers and views in Pakistan, whereas the same video generates USD 1.5-2.0 in regions such as the US and Europe.

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As per our estimates, the channel makes USD 1 per 1,000 views given its viewership mix of Pakistani and other Asian diaspora. Interestingly, other companies that use YouTube to advertise their products / services, pay the network USD 5 per 1,000 views (which is the revenue YouTube makes), whereby it only pays local channels a small portion of that revenue i.e. USD 0.6 per commercial which has 1,000 views. As viewership has made new records this year, coupled with augmented advertisement revenue from adverts played during uploaded videos, HUMNL has already posted a significant growth in subscription based revenue of 131% YoY in 1HFY22.

Although the average subscriber base of Hum TV on YouTube has grown at 4mn per annum historically, we have assumed it to grow by a conservative 2mn going forward. Whereas we have also slightly reduced the advertisement rate to USD 0.8/1,000 views assuming more subscriptions within Pakistan where the rate offered per video is lower. We also find it interesting to highlight that Social Blade projects subscribers of Hum TV on YouTube to climb up to 121mn by FY26 against just 34mn in our forecast. That said, expect the company's subscription income to achieve a 3-yr forward CAGR of 41% against 28% in the last 3 years.

**Figure 9. Future YouTube Subscribers for HUM TV**



Source (s): Social Blade, AHL Research

Another blessing in disguise, apart from being USD denominated, is that income generated from social media is subjected to just 1% tax on sales, since it relates to exports. Which is one reason why HUMNL's effective taxation has been so low over the past few years.

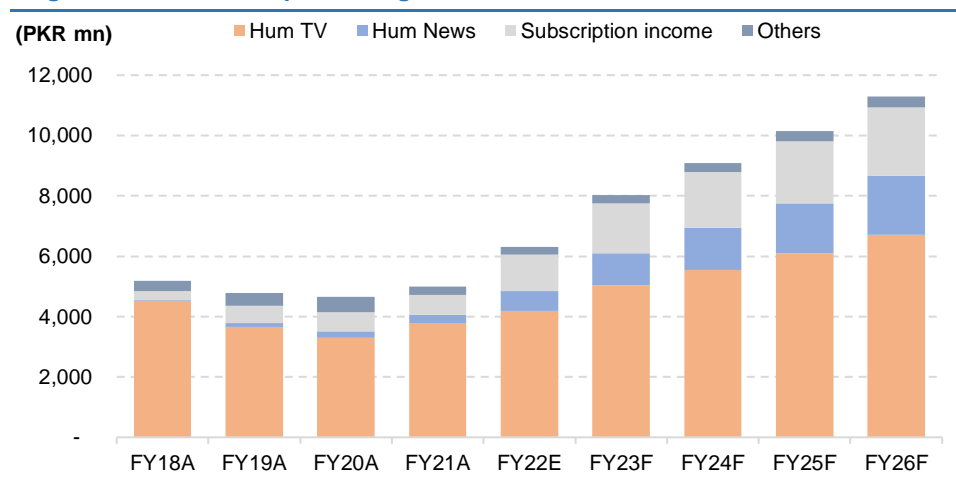
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### Revenue growth appears palpable

As all sources of revenue point north (1H FY22 sales posted a jump of 20% over last year), our projections suggest sales to grow by 26% in FY22 and achieve a 3-yr forward CAGR of 22% till FY24 to PKR 9bn.

We do highlight that the three revenue drivers we discussed above (Hum TV, Hum News and subscription income via YouTube) form over 90% of the company's total revenue. Albeit, we expect a slight shift in contribution; currently Hum TV contributes nearly 70% to company topline while Hum News and subscription income add under 10% and 20%, respectively. We project the quantum of revenue from Hum News to go up to over 15% in the next few years whereas Hum TV and subscription income will contribute nearly 60% and 20%, respectively. Please check the graph below.

**Figure 10. Sales are expected to grow a 3Y CAGR of 22%**



Source (s): Company Financials, AHL Research

### Costs to remain in-check

Over the past few years, HUMNL has built a reputation of being a very cost effective network. This reflects in prior year's profitability, whereby despite cut in revenues, cost cutting was much more meaningful.

One of the major costs components of the company is to procure outsourced programs for the channel. Since the TV industry of the country is at a very mature stage, not a lot changes in terms of costing. This cost of outsourced programs includes everything; from payment to writers and actors, production design, as well as post production costs. Usually it is only the domestic growth climate and cost pressures that impact the cost of producing dramas. Similarly, the cost of in-house production is effected by the same variables.

Another key cost head is the fee and subscription cost. As per company management, this is the cost of handling social media accounts and does not deviate much from 25% of the subscription income.

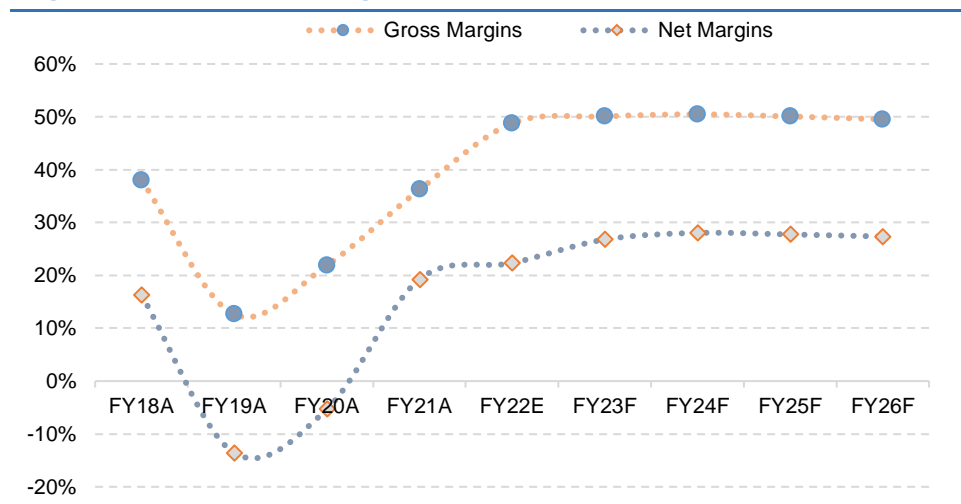
Whereas the company has already made significant investment in spreading its distribution network, so no additional costs will be incurred on that account.

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### Strong profitability going forward

As revenue continues to show a solid growth momentum, margins of the company have climbed up from 36% last year to 50% in 1HFY22. We expect them to remain robust over the next few years. Please check the graph below.

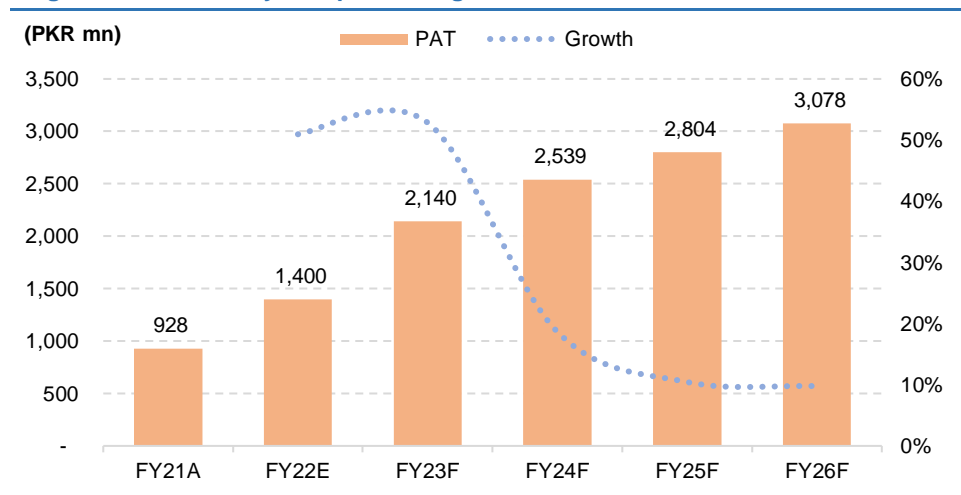
**Figure 11. Gross and Net Margins: Trend and Forecast**



Source (s): Company Financials, AHL Research

With all said, we project HUMNL's bottom-line in FY22 and FY23 at PKR 1,416mn (EPS: PKR 1.5) and PKR 2,208mn (EPS: PKR 2.3), while earnings are forecast to achieve a 3-yr forward CAGR of 40% till FY24. We also expect that company to resume payouts with dividends for FY22 and FY23 expected at PKR 0.50/share and PKR 1.25/share, respectively. Therefore, the stock offers an alluring dividend yield of 15% (FY23).

**Figure 12. Profitability is expected to grow a 3Y CAGR of 40%**



Source (s): Company Financials, AHL Research

## Attractive amongst peers

Globally, media and entertainment industry stocks are priced at very high multiples, at a premium to the stock market. These best value companies offer much more than meets the eye; they offer the future, where the growth possibilities are endless. In comparison, a simple assessment of HUMNL's price at the index relative to its regional and global peers reaffirms the same.

With our earnings forecast for FY23 and FY24 set at PKR 2,140mn (EPS: PKR 2.3) and PKR 2,539mn (EPS: PKR 2.7), the stock currently trades at an attractive PER of 3.6x and 3.1x, respectively. Moreover, the stock is well priced in comparison to other international peers as well. Media and entertainment industry stocks in the region are trading at a trailing / forward PER of 25.8x / 19.0x. Thus, our PER evaluation suggests that the scrip trades at a significant 70% / 81% discount to regional media entertainment companies on trailing / forward basis.

A similar exercise was done in the P/B comparison. Media and entertainment industry stocks in the international equity markets are trading at a trailing / forward P/B of 2.7x / 2.5x, compared to HUMNL which trades at a trailing / forward P/B of 1.6x / 1.3x, at a noteworthy discount of 40% / 47%.

Finally, it was pertinent to check the discount at which HUMNL trades on price to sales basis - vis-à-vis its regional peers. At current levels, the discount arrives at a massive 63% / 70% as the scrip trades at a trailing / forward price to sales ratio of 1.4x / 1.0x vs. regional average of 3.9x / 3.3x.

### Exhibit 10: Regional Peers Comparison

Companies	Country	Mkt Cap (USD mn)	P/E (x)	P/B (x)	P/S (x)	GMs (%)	NMs (%)	D/E (x)	ROA (%)	ROE (%)
<b>Regional Peers</b>										
Zee Entertainment Enterprises Ltd	India	3,388	16.77	2.15	2.88	na	13.45	na	na	na
Sun TV Network Ltd	India	2,566	10.91	2.26	4.76	na	48.69	na	na	na
TV18 Broadcast Ltd	India	1,602	23.05	na	2.12	na	12.45	na	na	na
BEC World PCL	Bangkok	931	25.65	4.34	4.41	33.29	13.41	0.49	7.68	13.13
GMA Network Inc	Philippine	912	8.65	4.55	1.89	76.42	33.54	0.06	31.37	42.90
Hubei Broadcasting & Television	China	740	48.64	1.37	3.58	35.85	3.92	0.38	0.89	1.56
Hathway Cable & Datacom Ltd	India	499	29.52	0.92	2.13	na	14.59	na	4.64	6.53
TV Today Network Ltd	India	324	11.2	1.6	2.4	na	20.2	na	na	na
<b>Regional Peer Weighted Average</b>			<b>19.0</b>	<b>2.5</b>	<b>3.3</b>	<b>21.3</b>	<b>22.8</b>	<b>0.3</b>	<b>12.6</b>	<b>18.1</b>
Hum Network Limited (Forward)	Pakistan	42	3.62	1.32	0.97	50.06	26.79	0.00	34.27	39.50
<b>Premium / (Discount)</b>			<b>-81%</b>	<b>-47%</b>	<b>-70%</b>	<b>-57%</b>	<b>-15%</b>	<b>-100%</b>	<b>-63%</b>	<b>-54%</b>

Source (s): Company Financials, Bloomberg, AHL Research

## Hum Network Limited

### Relative valuation

The above further supports our liking for the stock. Our DFC-based Dec'22 target price is set at PKR 17.5/share whereas if we value the company using a hybrid valuation methodology (mix of P/E, P/B and P/S ratios) the target price would settle at PKR 28.7/share. Since the KSE-100 index has traded at a historical discount of 35% to the region, assuming the same would still suggest a target price of PKR 18.7/share. This translates to a strong "BUY".

#### Exhibit 11: Relative Valuation

Companies	Weight	HUMNL	Regional Average	Target Price	Discount to Regional Peers	Discount to Regional Avg.	Target Price
P/E	33.3%	3.62	19.0	43.1	35%	12.3	28.0
P/B	33.3%	1.32	2.5	15.5	35%	1.6	10.1
P/S	33.3%	0.97	3.3	27.6	35%	2.1	17.9
<b>Weighted Average Target Price</b>				<b>28.7</b>			<b>18.7</b>

Source (s): Company Financials, Bloomberg, AHL Research

## Hum Network Limited

### Risks:

1. Slowdown in overall economic activity / another COVID-19 outbreak, which can hamper marketing spending by companies.
2. Massive surge in domestic industrial costs, forcing companies to compromise on marketing budgets.
3. Sudden depreciation in the Pak Rupee eroding the margins of domestic companies that choose television or the social media to market their products / services.
4. Higher subscription, augmented Ad rates and stronger than projected USD remain key upside risks for subscription income from the YouTube channel. We have prepared a sensitivity for FY23 and FY24 earnings based on change in subscribers and average advertisement rate.

Assuming subscribers vary by 2mn against our assumptions, earnings would alter on average by PKR 0.09/share in FY23 and PKR 0.09/share in FY24. Please find the table below.

#### Exhibit 12: Hum TV YouTube Subscribers Sensitivity Analysis

	Subscribers* in Jun'23	EPS (PKR)		TP
		FY23F	FY24F	
Base Case	27,839	2.27	2.70	17.54
Incremental 2mn	29,839	2.36	2.79	18.11
Incremental 4mn	31,839	2.45	2.88	18.62
Incremental 6mn	33,839	2.54	2.97	19.17
Incremental 8mn	35,839	2.63	3.06	19.69
Incremental 10mn	37,839	2.72	3.16	20.24

Source (s): Company Financials, AHL Research, \*thousands

Whereas assuming the average ad rate changes by PKR 1,000 per minute from our assumptions, earnings would vary on average by PKR 0.10/share in FY23 and PKR 0.11/share in FY24. Please find the table below.

#### Exhibit 13: Hum TV Ad Rate Sensitivity Analysis

	PKR/min in FY23	EPS (PKR)		TP
		FY23F	FY24F	
Base Case	39,162	2.27	2.70	17.54
Incremental 1K/min	40,162	2.37	2.80	18.23
Incremental 2K/min	41,162	2.47	2.91	18.86
Incremental 3K/min	42,162	2.56	3.01	19.54
Incremental 4K/min	43,162	2.66	3.11	20.20
Incremental 5K/min	44,162	2.76	3.23	20.90

Source (s): Company Financials, AHL Research

5. Unceremonious cut in the government's Ad campaign rate.
6. One off gains from sale of TV shows to other platforms such as Netflix or Amazon Prime.

Hum Network Ltd. (HUMNL)					Current Price	8.2	Upside	113.6%		
					Target Price	17.5	Recommendation	BUY		
PKR mn	FY21A	FY22E	FY23F	FY24F	Unit	FY21A	FY22E	FY23F	FY24F	
Income Statement Items					Per Share					
Revenue	4,994	6,303	8,020	9,091	Earnings	PKR	1.0	1.5	2.3	2.7
Cost of Production	2,839	2,926	3,673	4,137	Earning Growth	%	nm	51.0	52.8	18.6
Transmission Cost	347	302	332	366	Dividend	PKR	-	0.50	1.25	1.25
Gross Profit	1,809	3,075	4,015	4,588	Book Value	PKR	3.2	5.2	6.2	7.7
Distribution Cost	289	324	341	358	Valuation					
Administrative Expenses	929	975	1,072	1,180	P/E	x	8.2	5.5	3.6	3.1
Other Expenses	70	96	101	111	Dividend Yield	%	-	6.1	15.2	15.2
Other Income	163	52	121	98	P/B (x)	x	2.5	1.6	1.3	1.1
Finance Cost	102	70	27	0	Payout Ratio	%	-	33.7	55.2	46.5
PBT	1,059	1,661	2,555	3,064	RoE	%	26.3	31.3	39.5	38.6
PAT*	928	1,400	2,140	2,539	RoA	%	16.9	24.4	34.3	34.5
Balance Sheet Items					D/E	x	0.2	0.1	0.0	0.0
Paid-up Capital	945	945	945	945	Turnover & Activity					
Total Equity	4,011	4,938	5,898	7,255	Asset Turnover	x	0.9	1.1	1.3	1.2
Current Liabilities	1,224	853	710	778	Current Ratio	x	3.1	4.9	7.2	8.3
Non-Current Liabilities	395	48	43	48	Margins					
Current Assets	3,764	4,196	5,087	6,494	Gross Margin	%	36.2	48.8	50.1	50.5
Non-Current Assets	1,865	1,644	1,564	1,588	EBITDA Margin	%	28.2	30.2	34.6	36.1
Total Assets	5,629	5,839	6,651	8,082	Net Profit Margin	%	19.2	22.3	26.8	28.0

Source (s): Company Financials, AHL Research, \*Attributable to owners of holding company



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Rating	Description
BUY	Upside* of subject security(ies) is more than +10% from last closing of market price(s)
HOLD	Upside* of subject security(ies) is between -10% and +10% from last closing of market price(s)
SELL	Upside* of subject security(ies) is less than -10% from last closing of market price(s)

## Equity Valuation Methodology

AHL Research uses the following valuation technique(s) to arrive at the period end target prices;

- **Discounted Cash Flow (DCF)**
- **Dividend Discounted Model (DDM)**
- **Sum of the Parts (SoTP)**
- **Justified Price to Book (JPTB)**
- **Reserved Base Valuation (RBV)**

## Risks

The following risks may potentially impact our valuations of subject security (ies);

- **Market risk**
- **Interest Rate Risk**
- **Exchange Rate (Currency) Risk**

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