

Zee Media (ZEEMED)

₹ 26

We, had come out with Idirect Instinct on Zee Media (ZMCL) in September, 2017. As a recent development, the company confirmed that due to expiry of the MoU signed between the company and Big FM for acquisition of radio channels, the deal stands called-off as of now and we exclude the radio valuations from our target price. Nevertheless, we highlight that ZMCL is in a sweet spot after de-merger of loss making print business and sale of online shopping business. Moreover, it remains a quasi-play on elections (both states and national) given its respectable no. 2 position in Hindi News segment and wider presence in regional space.

Strong Q2FY19 performance

Zee Media (ZMCL) reported strong numbers for Q2FY19. The ad revenue growth of 35.5% YoY (National portfolio grew by 29% YoY, while regional portfolio grew by 44% YoY) aided by continuous yield improvement in flagship channel 'Zee News' as well as market share gain by its regional portfolio. The ad revenue growth was strong compared to TV18 which reported 18% YoY ad revenue growth in Q2FY19.

Guided for 25% CAGR revenue growth for next 2-3 years

Management guided for 25% CAGR revenue growth for next 2-3 years. They indicated that revenue growth would be aided by continuous improvement in ERR (Effective rates) for flagship channels coupled with capacity utilisation for new channels. On the regional news front, management indicated that they in strong no 2 position in most of the markets they operate, while continue to lead in MP/CG and Bihar markets.

A key beneficiary of upcoming elections

We note that the Hindi speaking states of MP, Chhattisgarh and Rajasthan were poll bound in December. Moreover, general elections are expected by Q4FY19/Q1FY20. Given the company's relatively strong footing in Hindi news segment as well presence in aforementioned states, the company is expected to be a key beneficiary of the elections led uptick.

Valuation & Outlook

ZMCL has showcased superior growth trajectory in its news portfolio vis-à-vis its peers over the 6 quarters, Given the robust growth potential, we assign P/E multiple of 15x (similar to peers), on our rough cut FY20E EPS of ₹ 2.2, resulting in fair value target price of ₹ 33/share and BUY recommendation. We now exclude the radio valuations upside from our target price, which has resulted in downward revision in target price. Nonetheless, recent correction provides an attractive entry point.

Exhibit 1: Financial Performance

P&L	FY14	FY15	FY16	FY17*	FY18*
Revenues (₹ crore)	335.2	544.3	543.0	449.8	573.5
EBITDA (₹ crore)	25.5	44.5	78.7	99.9	132.9
Net Profit (₹ crore)	21.3	(43.2)	(4.5)	(16.1)	27.8
Balance Sheet					
Equity (₹ crore)	24.0	36.2	44.0	47.1	47.1
Net worth (₹ crore)	231.1	360.9	544.4	515.7	672.1
Debt (₹ crore)	111.5	460.3	384.5	109.1	124.9
Ratios					
RONW (%)	6.6	(10.2)	0.3	9.3	7.3
ROCE (%)	9.0	0.4	5.3	8.6	11.9
Asset turnover (x)	1.7	0.7	0.7	1.5	1.4
Earnings per share (₹)	0.9	(1.2)	(0.1)	(0.3)	0.6
EV/EBITDA (x)	51.7	36.9	19.3	12.8	10.1
P/E (x)	40.7	NM	NM	NM	44.1

Source: Capitaline, Company, ICICIdirect.com Research * includes only Broadcasting business

Rating Matrix

Rating	:	Buy
Target	:	₹ 33
Target Period	:	12 months
Potential Upside	:	27%

Stock Data

Particular	Amount
Market Capitalization (₹ Crore)	1,226.4
Total Debt (FY18) (₹ Crore)	124.9
Cash (FY18) (₹ Crore)	10.8
EV (₹ Crore)	1340.6
52 week H/L (₹)	50/ 22
Equity capital (₹ crore)	47.1
Face value (₹)	1

Price Movement



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Other Highlights

- Promoter holding has come down from 69.11% in FY18 to 67.02% in Sep'18. Management attributed reduction in promoter stake to some restructuring among the promoters group family.
- Annual carriage cost is of ₹50 crore in FY18 and management do not foresee more than 10-12% increase in this cost in FY19
- Management guided for maintenance capex of ₹20-25 crore in FY19
- Effective rate grew by 25% YoY for its flagship channel, Zee News. Management indicated their rates are 25-30% discount to leader and they have a headroom to increase rates further
- Zee Aakash has been growing at 10% QoQ for last many quarters and EBITDA margin for the channel stands at ~47-48% currently
- Zee maintained its leadership in Marathi, Chhattisgarh/MP, Bihar/Jharkhand market, while it is a strong no. 2 player in Bangla, UP, Punjab/Haryana Market.
- Management indicated that all regional channels are EBITDA +ve, while only newly launched 3 channels are making losses at EBITDA level
- Zee Salaam surpassed DD Urdu and now is no 1 Urdu channel
- Inventory utilization currently stands at 18 to 20 min/hr, while it is expected to increase by 1-2 min/hour during festive season
- Non-current investments includes ₹436 crore Preference shares investment in diligent media.
- Marketing spend growth is expected at ~10-15%, given the elections.

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