INSTITUTIONAL RESEARCH

Media and Telecom

3QFY19E Results Preview

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Media: Broadcaster, Healthy performance

Zee Entertainment (Broadcaster)

- With increasing viewership in the regional markets and strong advertisement & subscription revenues, Zee is in a sheltered position for the near future. We expect ~16% YoY revenue growth.
- The OTT space is seeing huge content investments by big players like Amazon, Rjio etc Thus, likely increase of the competitive intensity in the regional market and also in the digital space may pose as risks.
- **Zee is the best-placed broadcaster. Maintain BUY with a revised TP of Rs 511 @ 25x Dec-20E EPS.**

Dish TV (DTH operator)

- Despite seasonally strong quarter, we expect DITV's net subscriber addition at 200k (flat QoQ), partly owing to uncertainty around tariff order. In our opinion, it is reflective of DITV's weak execution (a perennial problem).
- We thus expect revenue's to decline 1% QoQ and EBITDA 5%. Contrary to expectation of improvement in EBITDA led by synergy benefits, DITV's EBITDA is expected to decline due to higher opex on brand promotions with new ambassador Ranvir Singh.
- Inexpensive valuations (5.6/5.3x FY20/21E EV/EBITDA) and hope of improvement in execution are the only comforting factor for our . BUY on DITV. **Our revised TP is Rs 50 @ 7x Dec-20E EV/EBITDA (Rs 58 earlier).** Reduction in our TP is to factor likely weak 3QFY19.

Entertainment Network and Music Broadcast (Radio companies)

- We except ENIL to record a 24% YoY revenue growth (3QFY18 was -1.8%) led by low-margin strong non-FCT business and MBL 13.5% YoY (3QFY18 was 4.7% YoY).
- Led by shift of festive season in 3Q and state elections, upcoming national elections, resultant higher utilization and contribution from new stations & price increase in the established stations will lead to a strong quarter for both these companies.
- Radio industry's innately high operating leverage (80-85% fixed costs) and low maintenance capex will drive healthy earnings and cash flows especially MBL.
- For ENIL, we expect the margin to be flat QoQ and down 230 YoY. Margin decline YoY is owing to higher contribution from low-margin non-FCT business and higher expenses from Phase III batch II stations.
- Reiterate BUY with revised TP of Rs 714 on ENIL and Rs 404 on MBL, both based on @ 25x Dec-20E P/FCFE.

3QFY19E: Festive season charisma missing

COMPANY	3QFY19E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
Zee Entertainment	**Strong**	▪ Domestic ad revenue growth to be healthy at 17%. Market share gains in the flagship channels and continue strengthening of its base in the regional market will lead to strong performance. ▪ We expect subscription revenue to grow by healthy ~18% YoY.	▪ Outlook on advertising and subscription revenue growth ▪ Investments and outlook on digital business ▪ Update on stake sale by promoters
Dish TV Videocon	**Weak**	▪ We expect Dish TV to report 200k net adds viz. weak in a seasonally strong quarter. Dish reported a steep 7% QoQ ARPU growth in 1QFY19 partly boosted by sports (IPL). In 3QFY19, we expect the ARPU to decline by 1.5% QoQ to Rs 204 owing to weak subscriber quality and DITV's poor execution. ▪ We estimate EBITDA margin to decline 140 QoQ owing to higher A&P spend (Ranvir Singh new ad promotion) and EBITDA to decline 3% QoQ.	▪ Subscriber growth and ARPU trajectory ▪ Impact of new TRAI tariff order ▪ Update on merger synergies
Entertainment Network (ENIL)	**Average**	▪ ENIL's expected 24% YoY growth is owing to shift of festive season in 3QFY19 vs. in 2QFY18 in previous year, international concerts and increasing utilization of stations.	▪ Outlook on pricing and revenue growth especially on 2nd frequencies in established cities ▪ Margin trajectory ▪ Timeline for acquisition of TV Today's 3 stations
Music Broadcast (MBL)	**Average**	▪ MBL's 13.5% YoY revenue growth is moderate in light of festive season falling in Q3.	▪ Outlook on pricing and revenue growth ▪ Timeline for acquisition of Anand Bazar's Kolkata station

3QFY19E: Financial Summary

COMPANY	NET SALES (Rs bn)			EBITDA (Rs bn)			EBITDA Margin (%)			APAT (Rs bn)			Adj. EPS (Rs/sh)		
	3Q FY19E	*QoQ (%)*	*YoY (%)*	3Q FY19E	*QoQ (%)*	*YoY (%)*	3Q FY19E	*QoQ (bps)*	*YoY (bps)*	3Q FY19E	*QoQ (%)*	*YoY (%)*	3Q FY19E	2Q FY19	3Q FY18
MEDIA															
Zee Entertainment	21.39	*8.3*	*16.4*	7.31	*8.2*	*23.0*	34.2	*-3*	*183*	4.54	*17.6*	*21.4*	4.7	4.0	3.9
Dish TV	15.86	*(0.5)*	*(1.8)*	5.15	*(4.7)*	*(1.3)*	32.5	*-142*	*17*	0.34	*NA*	*NA*	0.2	0.1	(0.9)
ENIL	1.84	*50.0*	*24.3*	0.40	*46.9*	*12.8*	21.8	*-47*	*-223*	0.16	*72.3*	*18.7*	3.3	1.9	2.8
MBL	0.86	*7.9*	*13.5*	0.28	*5.8*	*20.5*	32.5	*-63*	*190*	0.16	*18.0*	*32.9*	2.8	2.3	2.1
Aggregate	**39.95**	***5.9***	***8.7***	**12.70**	***3.5***	***11.9***	**33.7**	***-77***	***94***	**4.28**	***21.2***	***125.2***			

Source : Company, HDFC sec Inst Research

Peer Set Comparison

COMPANY	Mcap (Rs bn)	CMP (Rs)	RECO	TP (Rs)	EPS (Rs/sh)				P/E (x)				EV/EBITDA (x)				RoE (%)			
					FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E
MEDIA																				
Zee Ent	433.8	452	BUY	511	12.3	15.5	18.4	21.1	38.6	30.7	25.8	21.4	21.3	16.9	14.8	12.0	16.6	18.4	19.0	18.8
Dish TV	78.0	41	BUY	50	(0.0)	0.5	1.0	1.4	NA	80.5	40.3	29.4	6.1	5.8	5.6	5.3	(0.0)	1.4	2.8	3.8
ENIL	28.9	606	BUY	714	6.6	10.7	14.7	17.5	92.0	56.6	41.2	34.6	24.2	20.3	14.3	12.4	3.6	5.6	7.3	8.3
MBL	17.3	303	BUY	404	9.1	10.9	13.7	16.2	33.4	27.7	22.1	18.7	15.8	13.6	11.1	9.5	9.0	10.6	13.0	14.5

Source : Company, HDFC sec Inst Research

Telecom: Stability, finally!

- **3QFY19 outlook:** We expect revenue stability to set in, with consumer revenues flat QoQ for Bharti and a drop of ~2% for Voda-Idea. Subscriber adds will be negative as low ARPU/non-paying customers are weeded out. EBITDA will be flat QoQ for Bharti, as cost pressure in India wireless will be off-set by non-wireless (Enterprise and DTH) and Africa business. Voda-Idea EBITDA will decline ~8% QoQ. Synergy benefits to be off-set by revenue decline.
- For Jio we expect a revenue growth of 11% QoQ. This would be led by 14% subscriber growth to ~280 mn subs and ARPU decline of 2% QoQ, owing to rising contribution from low ARPU Jio Phone subscribers. EBITDA growth at 9% to lag revenue, given aggressive network roll-outs. We will watch expense booking closely.
- For BHIN, we expect service revenue and EBITDA drop of 12% and 19% YoY. This is led by 18% decline in tenants owing to the Voda-Idea merger and exit by weaker players.

Sector Outlook

- Hyper competition, down-trading, weak subscriber additions and costs pressure will lead to a 3/2% decline in EBITDA estimate for Bharti and 7/3% for Voda-Idea for FY20/21E. We think this adversity cycle has more or less played out, and remain hopeful of pricing improvement in the medium term. Recent steps taken by Bharti and Voda-Idea to force low ARPU customers to mandatorily recharge (limited validity) instead of unlimited validity should help revive revenue growth.
- Telecom stocks have corrected sharply in CY18 (Bharti 40%, Voda Idea 64% and BHIN 30%). We expect revenue de-growth to taper off, led by 4-5mn data sub additions by Bharti/Voda-Idea, pricing recovery and mandatory recharge plans.
- Aggressive capex and rising opex (cash burn) for Jio may compel it to re-look its aggressive pricing stance especially when Voda-Idea is unlikely to exit markets with potential fund raising.
- **Reiterate BUY on Bharti and Voda-Idea with revised TPs of Rs 396 and Rs 43 respectively (10x Dec-20E EV/EBITDA for India Wireless).** We have increased our target multiple for Bharti from 9x to 10x (in-line with Voda-Idea and Jio) factoring in the likely improvement in industry outlook. Even if the tariff war prolongs, Bharti (with manageable debt, potentially monetisable assets) remains best-positioned. Idea remains vulnerable owing to high leverage and low profitability.
- **Reiterate BUY on BHIN with TP of Rs 345.** This is primarily on account of (1) Savings on DDT (~Rs 5bn) and earnings accretion from Indus acquisition (2) Recent price correction (3) Tenancy losses from the Voda-Idea merger are lower than expected, and (4) No re-pricing of tower rentals downwards by telcos despite the bad busines environment. This remains a key risk.

3QFY19E: Weak, but revenue stability positive

COMPANY	3QFY19E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
Bharti Airtel	**AVERAGE**	▪ On consolidated basis, we expect 1.2% revenue growth but 17% EBITDA decline YoY. On QoQ basis, we estimate revenue to grow by 0.7% and EBITDA to be flat. YoY revenue growth is driven primarily by Africa business. ▪ The India wireless business revenue to decline 1.3% QoQ and EBITDA 11.4%. ARPU to improve by 1% QoQ to Rs 101 as company removes low yielding subs. ▪ For Africa, we estimate 4% QoQ revenue and EBITDA growth led by rupee depreciation.	▪ Outlook on revenue bottoming out and potential increase in tariffs ▪ Impact of Jio's GigaFiber and Giga STB on Enterprise, Home broadband and DTH business
Vodafone-Idea	**WEAK**	▪ Vodafone-Idea would report first full quarter of merged financials. It would thus not be comparable on QoQ/YoY basis. ▪ On like-to-like basis, we estimate revenue decline of 3% QoQ and EBITDA drop of 9%.	▪ Outlook on ARPU/revenue bottoming out ▪ Go-to-market strategy to regain the lost subscriber momentum ▪ Capex outlook to beef up the 4G capacity and timelines
Bharti Infratel	**AVERAGE**	▪ Led by 18% YoY tenancy decline, we estimate BHIN to report 11% decline in service revenue and 19% decline. ▪ Despite higher operating leverage, drop in EBITDA is lower than the tenancy decline due to increase in rentals for remaining tenants and robust increase in loading. ▪ Energy spread to increase marginally QoQ led by seasonality factor.	▪ Outlook on further potential tenancy and EBITDA loss from Voda-Idea merger. ▪ Update on exit penalty. ▪ Any potential rental renegotiations

3QFY19E: Financial Summary

COMPANY	NET SALES (Rs bn)			EBITDA (Rs bn)			EBITDA Margin (%)			APAT (Rs bn)			Adj. EPS (Rs/sh)		
	3Q FY19E	*QoQ (%)*	*YoY (%)*	3Q FY19E	*QoQ (%)*	*YoY (%)*	3Q FY19E	*QoQ (bps)*	*YoY (bps)*	3Q FY19E	*QoQ (%)*	*YoY (%)*	3Q FY19E	2Q FY19	3Q FY18
TELECOM															
Bharti Airtel	205.62	*0.7*	*1.2*	62.21	*(0.4)*	*(16.7)*	30.3	*-32*	*-650*	(10.61)	*NA*	*NA*	(0.7)	0.3	0.8
Vodafone Idea	116.87	*52.5*	*79.5*	8.97	*94.3*	*(26.7)*	7.7	*165*	*-1112*	(66.13)	*50.0*	*414.9*	(15.2)	(10.1)	(3.6)
Bharti Infratel	34.72	*(5.4)*	*(5.0)*	13.37	*(10.1)*	*(16.4)*	38.5	*-207*	*-527*	5.71	*(4.8)*	*(2.4)*	3.1	3.2	3.2
Rjio	103.14	*11.6*	*49.9*	39.03	*9.3*	*48.6*	37.8	*-82*	*-35*	7.29	*7.1*	*NA*			
Aggregate	**460.35**	***12.3***	***23.2***	**123.57**	***5.0***	***(4.3)***	**26.8**	***-186***	***-773***	**(63.74)**	***111.9***	***(5,831)***			

Source : Company, HDFC sec Inst Research   Excluding one-month merger impact of Vodafone

Peer Set Comparison

COMPANY	Mcap (Rs bn)	CMP (Rs)	RECO	TP (Rs)	EPS (Rs/sh)				P/E (x)				EV/EBITDA (x)				RoE (%)			
					FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E
TELECOM																				
Bharti Airtel	1,250.0	313	BUY	396	2.7	(4.8)	(8.6)	(1.0)	119.8	NA	NA	NA	7.9	9.9	9.4	7.8	1.6	(2.6)	(4.7)	(0.6)
Vodafone Idea	528.0	37	BUY	43	(11.6)	(73.1)	(53.5)	(32.4)	NA	NA	NA	NA	17.8	35.4	17.6	9.5	NA	NA	NA	NA
Bharti Infratel	551.2	298	BUY	345	13.8	13.3	13.8	15.0	21.7	22.4	21.6	19.8	8.1	9.1	9.3	8.9	15.7	14.8	15.8	16.9

Source : Company, HDFC sec Inst Research

Rating Definitions

BUY	:	Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL	:	Where the stock is expected to deliver (-) 10% to 10% returns over the next 12 month period
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