

Sector: Media
Stock update

Change

Reco: Hold



CMP: Rs. 347

Price Target: Rs. 400



↑ Upgrade ↔ No change ↓ Downgrade

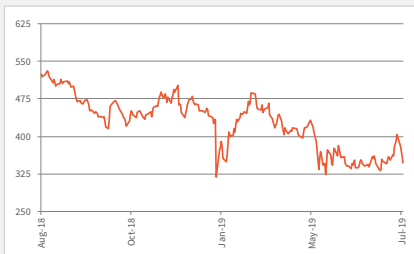
Company details

Market cap:	Rs. 33,299 cr
52-week high/low:	Rs. 540 / 289
NSE volume: (No of shares)	108.0 lakh
BSE code:	505537
NSE code:	ZEEL
Sharekhan code:	ZEEL
Free float: (No of shares)	61.7 cr

Shareholding (%)

Promoters	35.8
FII	47.3
DII	13.3
Others	3.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	7.9	-15.6	-3.9	-30.7
Relative to Sensex	13.1	-12.7	-7.8	-31.4

Sharekhan Research, Bloomberg

The promoters of ZEE Entertainment Enterprises Limited (ZEEL) have entered into an agreement with Invesco Oppenheimer Developing Market Fund to sell upto 11% stake in ZEEL for Rs. 4,224 crore, implying a price of around Rs. 400/share (~15% premium to today's closing price). This transaction will provide a financial fillip to initiate the repayment process of promoter level debt. Notably, outstanding promoter debt against shares at Essel Group level remains at Rs. 11,000 crore, including accrued interest till date. Management highlighted that both media and non-media assets sale is in the process and sale of these assets is expected to conclude by September 2019. Though this transaction with Invesco Oppenheimer provides some credibility as well as floor price for the stock, the situation is expected to remain hazy till end of September 2019, as they will have to conclude the sale of other assets within the deadline. Hence, we maintain our Hold rating on the stock with a revised price target (PT) of Rs. 400.

Promoter stake sale partially eases group level liquidity concern, management control retained

The recent agreement on equity transaction between ZEEL's promoter and Invesco Oppenheimer would enable the promoter to pare promoter level debt. With this transaction, Invesco Oppenheimer's holding will increase to 18% and promoters' shareholding will decline to 24.8% in ZEEL. Further, the promoters are at the advanced level of selling other media (most likely Dish TV) and non-media (road, solar and transmission) assets. As management highlighted that the priority is to repay lenders on time, it will need to engage with buyers to sell these other assets well within the agreed deadline. The promoter is also open to sell some stake in ZEEL in case there is any shortfall post closure of sale of other assets including ZEEL's stake. Even after selling additional minor stake, management highlighted that it will leave enough stake to keep promoters motivated to run the business. Tax outgo on Rs. 4,224 crore proceeds is expected to be minimal.

Our Call

Valuation: Deal provides some relief but overhang stays; Maintain Hold:

The deal with Invesco Oppenheimer will provide some credibility to the stock along with retaining management's control. We believe the street may be upset with ZEEL's decision to go with the financial investor rather than a strategic investor who can take the company to the next level. The deal provides relief to the promoters' liquidity concern to some extent, but the overhang remains till the finalisation of other assets' sale by the end of September 2019. Hence, we maintain our Hold rating on the stock with a revised PT of Rs. 400.

Key Risks

Pledge invocation could be a near-term risk to the stock price. Any delay in sale of other assets within the stipulated timeline could create further liquidity concerns.

Valuation

Particulars	FY17	FY18	FY19	FY20E	FY21E
Revenue	6,434.2	6,685.7	7,933.9	8,936.6	9,955.0
OPM (%)	29.9	31.1	32.3	32.0	32.4
Adjusted PAT	1,218.4	1,351.2	1,576.7	1,822.8	2,087.5
% YoY growth	31.9	10.9	16.7	15.6	14.5
Adjusted EPS (Rs.)	12.7	14.1	16.4	19.0	21.7
P/E (x)	27.3	24.6	21.1	18.3	16.0
P/B (x)	5.0	4.4	3.7	3.2	2.8
EV/EBITDA (x)	17.1	16.2	13.0	10.9	9.2
RoNW (%)	18.2	17.9	17.7	17.7	17.6
RoCE (%)	23.3	20.9	24.0	23.6	23.5

Source: Company, Sharekhan Research

About company

ZEEL is one of India's leading media and entertainment companies. The company is amongst the largest producers and aggregators of entertainment content in the world, with an extensive library housing over 250,000 hours of television content. ZEEL houses the world's largest Hindi film library with rights to more than 4,200 movie titles from foremost studios and of iconic film stars. Through its strong presence worldwide, ZEEL is present across 170+ countries and has a reach to over 1.3 billion viewers.

Investment theme

ZEEL has delivered a strong EBITDA CAGR of 19% over FY2012-FY2018, with EBITDA margin in excess of 30% throughout the past six years. In addition, ZEEL's management remains confident of delivering ad revenue growth ahead of industry growth rate. Hence, the company is considered as one of the leading players under the structural India consumption theme. A large and exclusive content library would be ZEE5's USP and would help to target particularly semi-urban and rural subscribers. ZEE5, as against major global OTT players, has a very large creative team that covers regional markets. ZEEL's management expects linear TV revenue to continue the early-teen growth, while it aspires ZEE5 contributing 30% to revenue in the next five years, with breakeven targeted by then. We believe ZEEL is well placed to derive benefits from anticipated GDP growth, improvement in viewership shares, new launches, higher penetration of DTH and the digitisation process.

Key Risks

Unfavourable regulatory guidelines impacting subscription revenue, slowdown in economic environment leading to lower demand, delay in monetisation benefit from digitisation, increased investments in ZEE5 having an adverse impact on margins and subdued realisation for advertisement revenue stream.

Additional Data

Key management personnel

Dr. Subhash Chandra	Non-Executive - Non Independent Chairman
Punit Goenka	Executive Director
Subodh Kumar	Non-Executive - Non Independent Director
Ashok Kurien	Non-Executive - Non Independent Director
Rohit Kumar Gupta	Chief Financial Officer
M Lakshminarayanan	Chief Compliance Officer and Company Secretary

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Cyquator Media Services Pvt Ltd	20.40
2	Essel Media Ventures Ltd	10.71
3	Invesco Ltd	7.29
4	Vanguard Group Inc	5.26
5	Life Insurance Corp of India	4.89
6	Essel Corporate LLP	3.04
7	Vontobel India Fund	2.21
8	Virtus Investment Partners Inc	2.17
9	Vontobel Holding AG	2.10
10	Schroders PLC	2.02

Source: Bloomberg

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