

Zee Media Corporation

Election tailwind boosts profits

February 01, 2018

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| | |
|----------------|--------|
| Rating | BUY |
| Price | Rs44 |
| Target Price | Rs67 |
| Implied Upside | 52.3% |
| Sensex | 35,907 |
| Nifty | 11,017 |

(Prices as on February 01, 2018)

Trading data

| | |
|----------------------------|-------|
| Market Cap. (Rs bn) | 20.6 |
| Shares o/s (m) | 470.8 |
| 3M Avg. Daily value (Rs m) | 55.9 |

Major shareholders

| | |
|----------------|--------|
| Promoters | 69.11% |
| Foreign | 6.21% |
| Domestic Inst. | 0.42% |
| Public & Other | 24.26% |

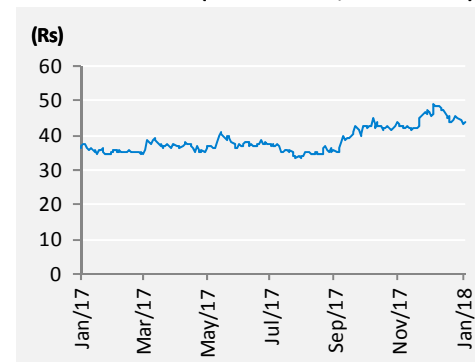
Stock Performance

| (%) | 1M | 6M | 12M |
|----------|-------|------|-------|
| Absolute | (3.3) | 18.1 | 18.8 |
| Relative | (9.5) | 7.8 | (8.7) |

How we differ from Consensus

| EPS (Rs) | PL | Cons. | % Diff. |
|----------|-----|-------|---------|
| 2019 | 1.2 | NA | NA |
| 2020 | 1.6 | NA | NA |

Price Performance (RIC: ZEEN.BO, BB: ZEEN IN)



Source: Bloomberg

Zee Media Corporation Ltd (ZMCL) reported strong set of numbers for 3QFY18 buoyed by elections in the state of Gujarat and Himachal Pradesh. While the standalone top-line increased 47.4% YoY, EBITDA ballooned to Rs386 mn (up 101.4% YoY) as cost of new channel launches (Zee 24 Kalak, Zee Salaam etc) were masked by improved top-line performance amid election tailwind.

At the consolidated level too, the bottom-line was healthy despite widening losses in the web e-com business (Rs87 mn for 3QFY18 Vs Rs54 mn for 2QFY18) presumably due to better performance from Zee Akaash News Pvt Ltd (a profitable subsidiary) and potential break even from the two TV subsidiaries engaged in the home shopping business (they were into losses since the last 4 quarters). In a move that could further boost consolidated profits, ZMCL has decided to increase its stake in Zee Akaash News Pvt Ltd from 60% to 100% for a consideration of Rs490 mn. We believe full consolidation can add another Rs40-50 mn to overall profits as this is the most profitable regional news channel for ZMCL with a PAT margin in the range of 18-20%.

Backed by four new channel launches in the last 12-15 months, improvement in effective ad rates in the range of 20-25%, ironing out issues on the operational cost front and rationalization of employee cost ZMCL is at a cusp of earnings turnaround. Consolidation of the radio business, once MIB lock in expires in March 2018, will act as another earnings kicker. As per our estimates of both broadcasting and radio businesses, ZMCL is trading at 18x FY20E earnings which is inexpensive. We retain BUY with a TP of Rs67.

| Key financials (Y/e March) | 2017 | 2018E | 2019E | 2020E |
|----------------------------|-------|-------|-------|-------|
| Revenues (Rs m) | 3,901 | 4,739 | 5,379 | 6,455 |
| Growth (%) | 1.7 | 21.5 | 13.5 | 20.0 |
| EBITDA (Rs m) | 801 | 1,028 | 1,232 | 1,523 |
| PAT (Rs m) | 381 | 418 | 562 | 753 |
| EPS (Rs) | 0.8 | 0.9 | 1.2 | 1.6 |
| Growth (%) | 73.0 | 9.7 | 34.6 | 33.8 |
| Net DPS (Rs) | — | — | — | — |

| Profitability & Valuation | 2017 | 2018E | 2019E | 2020E |
|---------------------------|------|-------|-------|-------|
| EBITDA margin (%) | 20.5 | 21.7 | 22.9 | 23.6 |
| RoE (%) | 5.9 | 6.1 | 7.7 | 9.4 |
| RoCE (%) | 7.2 | 7.9 | 9.7 | 12.0 |
| EV / sales (x) | 5.4 | 4.5 | 3.9 | 3.2 |
| EV / EBITDA (x) | 26.5 | 20.8 | 17.0 | 13.6 |
| PE (x) | 54.0 | 49.3 | 36.6 | 27.3 |
| P / BV (x) | 3.2 | 3.0 | 2.8 | 2.6 |
| Net dividend yield (%) | — | — | — | — |

Source: Company Data; PL Research

Exhibit 1: Q3FY18 Result Overview – Standalone (Rs m)

| Y/e March | Q3FY18 | Q3FY17 | YoY gr. (%) | Q2FY18 | 9MFY18 | 9MFY17 | YoY gr. (%) |
|-----------------------------------|--------------|-------------|--------------|--------------|--------------|--------------|-------------|
| Net Sales | 1,428 | 969 | 47.4 | 1,089 | 3,512 | 2,728 | 28.7 |
| Operational cost | 222 | 171 | 30.1 | 182 | 590 | 499 | 18.2 |
| <i>As a % of sales</i> | <i>15.6</i> | <i>17.6</i> | | <i>16.7</i> | <i>16.8</i> | <i>18.3</i> | |
| Employee expenses | 306 | 204 | 50.5 | 288 | 864 | 618 | 39.7 |
| <i>As a % of sales</i> | <i>21.5</i> | <i>21.0</i> | | <i>26.4</i> | <i>24.6</i> | <i>22.7</i> | |
| Marketing & distribution expenses | 174 | 198 | -11.9 | 196 | 529 | 446 | 18.7 |
| <i>As a % of sales</i> | <i>12.2</i> | <i>20.4</i> | | <i>18.0</i> | <i>15.1</i> | <i>16.4</i> | |
| Other expenses | 340 | 206 | 65.3 | 233 | 782.3 | 624.7 | 25.2 |
| <i>As a % of sales</i> | <i>23.8</i> | <i>21.2</i> | | <i>21.4</i> | <i>22.3</i> | <i>22.9</i> | |
| Expenditure | 1,043 | 778 | 34.1 | 899 | 2,765 | 2,188 | 26.4 |
| EBITDA | 386 | 192 | 101.4 | 190 | 747 | 540 | 38.3 |
| <i>EBITDA Margin (%)</i> | <i>27.0</i> | <i>19.8</i> | | <i>17.5</i> | <i>21.3</i> | <i>19.8</i> | |
| Depreciation | 113 | 65 | 74.3 | 88 | 282 | 187 | 50.8 |
| EBIT | 272 | 127 | 115.3 | 103 | 465 | 353 | 31.7 |
| <i>EBIT Margin (%)</i> | <i>19.1</i> | <i>13.0</i> | | <i>9.4</i> | <i>13.2</i> | <i>12.9</i> | |
| Interest | 37 | 39 | -4.7 | 35 | 123 | 109 | 12.9 |
| Other income | 11 | 43 | (75.6) | 20 | 59 | 94 | (37.3) |
| Exceptional items | - | - | | | - | - | |
| PBT | 246 | 131 | 87.8 | 88 | 401 | 338 | 18.6 |
| Tax | 86 | 16 | 428.5 | 29 | 138 | 85 | 61.8 |
| <i>Tax Rate (%)</i> | <i>34.8</i> | <i>12.4</i> | | <i>32.8</i> | <i>34.4</i> | <i>25.2</i> | |
| Other comprehensive income | 2.8 | (1.2) | NA | 0.4 | (1.5) | (3.8) | NA |
| P/L from discontinued operations | - | (7.2) | NA | - | - | (34.3) | NA |
| PAT | 163 | 107 | 53.1 | 59 | 261 | 215 | 21.7 |
| <i>PAT Margin (%)</i> | <i>11.4</i> | <i>11.0</i> | | <i>5.4</i> | <i>7.4</i> | <i>7.9</i> | |
| EPS (Rs) | 0.34 | 0.23 | 50.3 | 0.13 | 0.6 | 0.5 | 21.7 |

Source: Company Data, PL Research

Exhibit 2: Q3FY18 Result Overview - Consolidated (Rs m)

| Y/e March | Q3FY18 | Q3FY17 | YoY gr. (%) | Q2FY18 | 9MFY18 | 9MFY17 | YoY gr. (%) |
|-----------------------------------|--------------|---------------|-------------|--------------|--------------|---------------|-------------|
| Net Sales | 1,592 | 1,100 | 44.8 | 1,246 | 3,983 | 3,148 | 26.5 |
| Operational cost | 282 | 209 | 35.0 | 217 | 697 | 550 | 26.6 |
| <i>As a % of sales</i> | <i>17.7</i> | <i>19.0</i> | | <i>17.4</i> | <i>17.5</i> | <i>17.5</i> | |
| Employee expenses | 365 | 231 | 58.1 | 332 | 991 | 706 | 40.3 |
| <i>As a % of sales</i> | <i>22.9</i> | <i>21.0</i> | | <i>26.6</i> | <i>24.9</i> | <i>22.4</i> | |
| Marketing & distribution expenses | 187 | 210 | -10.9 | 211 | 560 | 528 | 6.1 |
| <i>As a % of sales</i> | <i>11.8</i> | <i>19.1</i> | | <i>16.9</i> | <i>14.1</i> | <i>16.8</i> | |
| Other expenses | 385 | 238 | 61.5 | 273 | 896 | 712 | 25.8 |
| <i>As a % of sales</i> | <i>24.2</i> | <i>21.7</i> | | <i>21.9</i> | <i>22.5</i> | <i>22.6</i> | |
| Expenditure | 1,218 | 888 | 37.2 | 1,033 | 3,144 | 2,497 | 25.9 |
| EBITDA | 374 | 212 | 76.5 | 213 | 839 | 652 | 28.8 |
| <i>EBITDA Margin (%)</i> | <i>23.5</i> | <i>19.3</i> | | <i>17.1</i> | <i>21.1</i> | <i>20.7</i> | |
| Depreciation | 116 | 71 | 63.5 | 90 | 290 | 205 | 41.6 |
| EBIT | 258 | 141 | 83.0 | 123 | 549 | 447 | 22.9 |
| <i>EBIT Margin (%)</i> | <i>16.2</i> | <i>12.8</i> | | <i>9.8</i> | <i>13.8</i> | <i>14.2</i> | |
| Interest | 37 | 39 | (4.8) | 36 | 124 | 109 | 13.2 |
| Other income | 12 | 29 | (59.5) | 22 | 66 | 87 | (24.6) |
| Exceptional items | - | - | | - | - | - | |
| PBT | 233 | 131 | 77.6 | 109 | 491 | 425 | 15.6 |
| Tax | 111 | 22 | 400.4 | 111 | 218 | 121 | 79.8 |
| <i>Tax Rate (%)</i> | <i>47.7</i> | <i>16.9</i> | | <i>101.9</i> | <i>44.4</i> | <i>28.5</i> | |
| PAT# | 106 | (63) | NA | 19 | 171 | (246) | NA |
| <i>PAT Margin (%)</i> | <i>6.6</i> | <i>(5.7)</i> | | <i>1.5</i> | <i>4.3</i> | <i>(7.8)</i> | |
| EPS (Rs) | 0.22 | (0.13) | NA | 0.04 | 0.37 | (0.51) | NA |

Source: Company Data, PL Research

Key highlights of the results:-

- Advertising revenue was up 46.5% YoY to Rs1,440 mn while subscription revenue was up 26.6% YoY to Rs117 mn. This is the first instance in the last 7 quarters where subscription revenue is up indicating that subscription fees for some regional channels underwent a hike.
- Sales of the E-Com business increased to Rs9 mn but losses widened to Rs87 mn.
- Zee News, the flagship channel of ZMCL, witnessed a 40% growth in revenues during the quarter.
- Acquisition of Zee Akaash is likely to be completed within 120 days.
- Regional news channel Zee UP-UK got launched in Jan 2018.

Exhibit 3: Segmental Breakup - Consolidated (Rs m)

| Y/e March | Q3FY18 | Q3FY17 | YoY gr. (%) | Q2FY18 |
|------------------------|--------------|--------------|-------------|--------------|
| Advertising revenue | 1,440 | 982 | 46.5 | 1,111 |
| <i>As a % of sales</i> | <i>90.4</i> | <i>89.3</i> | | <i>89.2</i> |
| Subscription revenue | 117 | 93 | 26.6 | 117.3 |
| <i>As a % of sales</i> | <i>7.4</i> | <i>8.4</i> | | <i>9.4</i> |
| Other sales & services | 35 | 24 | 44.7 | 17.7 |
| <i>As a % of sales</i> | <i>2.2</i> | <i>2.2</i> | | <i>1.4</i> |
| Total sales | 1,592 | 1,100 | | 1,246 |

Source: Company Data, PL Research

**Income Statement (Rs m)**

| Y/e March | 2017 | 2018E | 2019E | 2020E |
|----------------------------|--------------|--------------|--------------|--------------|
| Net Revenue | 3,901 | 4,739 | 5,379 | 6,455 |
| Raw Material Expenses | — | — | — | — |
| Gross Profit | — | — | — | — |
| Employee Cost | 877 | 1,171 | 1,334 | 1,607 |
| Other Expenses | 2,223 | 2,540 | 2,813 | 3,324 |
| EBITDA | 801 | 1,028 | 1,232 | 1,523 |
| Depr. & Amortization | 264 | 393 | 403 | 420 |
| Net Interest | 148 | 152 | 167 | 187 |
| Other Income | 153 | 142 | 178 | 207 |
| Profit before Tax | 542 | 626 | 839 | 1,123 |
| Total Tax | 160 | 206 | 277 | 371 |
| Profit after Tax | 381 | 419 | 562 | 753 |
| Ex-Od items / Min. Int. | (1) | (1) | — | — |
| Adj. PAT | 381 | 418 | 562 | 753 |
| Avg. Shares O/S (m) | 470.8 | 470.8 | 470.8 | 470.8 |
| EPS (Rs.) | 0.8 | 0.9 | 1.2 | 1.6 |

Cash Flow Abstract (Rs m)

| Y/e March | 2017 | 2018E | 2019E | 2020E |
|---------------------|---------|-------|-------|-------|
| C/F from Operations | 1,049 | 767 | 918 | 966 |
| C/F from Investing | (1,005) | (962) | (444) | (521) |
| C/F from Financing | (321) | 252 | (50) | (138) |
| Inc. / Dec. in Cash | (276) | 57 | 423 | 307 |
| Opening Cash | 562 | 347 | 404 | 827 |
| Closing Cash | 347 | 404 | 827 | 1,133 |
| FCFF | 1,032 | 267 | 889 | 862 |
| FCFE | 1,017 | 467 | 939 | 862 |

Key Financial Metrics

| Y/e March | 2017 | 2018E | 2019E | 2020E |
|-------------------------|-------|-------|-------|-------|
| Growth | | | | |
| Revenue (%) | 1.7 | 21.5 | 13.5 | 20.0 |
| EBITDA (%) | 37.9 | 28.3 | 19.8 | 23.7 |
| PAT (%) | 73.0 | 9.7 | 34.6 | 33.8 |
| EPS (%) | 73.0 | 9.7 | 34.6 | 33.8 |
| Profitability | | | | |
| EBITDA Margin (%) | 20.5 | 21.7 | 22.9 | 23.6 |
| PAT Margin (%) | 9.8 | 8.8 | 10.5 | 11.7 |
| RoCE (%) | 7.2 | 7.9 | 9.7 | 12.0 |
| RoE (%) | 5.9 | 6.1 | 7.7 | 9.4 |
| Balance Sheet | | | | |
| Net Debt : Equity | 0.1 | 0.1 | 0.1 | — |
| Net Wrkng Cap. (days) | (19) | (35) | — | 30 |
| Valuation | | | | |
| PER (x) | 54.0 | 49.3 | 36.6 | 27.3 |
| P / B (x) | 3.2 | 3.0 | 2.8 | 2.6 |
| EV / EBITDA (x) | 26.5 | 20.8 | 17.0 | 13.6 |
| EV / Sales (x) | 5.4 | 4.5 | 3.9 | 3.2 |
| Earnings Quality | | | | |
| Eff. Tax Rate | 29.6 | 33.0 | 33.0 | 33.0 |
| Other Inc / PBT | 28.2 | 22.7 | 21.2 | 18.4 |
| Eff. Depr. Rate (%) | 16.2 | 17.6 | 17.9 | 17.8 |
| FCFE / PAT | 267.2 | 111.7 | 167.0 | 114.6 |

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

| Y/e March | 2017 | 2018E | 2019E | 2020E |
|-------------------------------|--------------|--------------|--------------|--------------|
| Shareholder's Funds | 6,451 | 6,799 | 7,290 | 7,972 |
| Total Debt | 1,001 | 1,201 | 1,251 | 1,251 |
| Other Liabilities | — | — | — | — |
| Total Liabilities | 7,452 | 7,999 | 8,541 | 9,223 |
| Net Fixed Assets | 1,631 | 2,233 | 2,260 | 2,357 |
| Goodwill | — | — | — | — |
| Investments | 5,407 | 5,329 | 5,329 | 5,329 |
| Net Current Assets | 218 | 218 | 691 | 1,211 |
| <i>Cash & Equivalents</i> | <i>347</i> | <i>404</i> | <i>827</i> | <i>1,133</i> |
| <i>Other Current Assets</i> | <i>1,774</i> | <i>2,077</i> | <i>2,317</i> | <i>2,730</i> |
| <i>Current Liabilities</i> | <i>1,903</i> | <i>2,263</i> | <i>2,453</i> | <i>2,653</i> |
| Other Assets | 196 | 219 | 260 | 326 |
| Total Assets | 7,452 | 7,999 | 8,541 | 9,223 |

Quarterly Financials (Rs m)

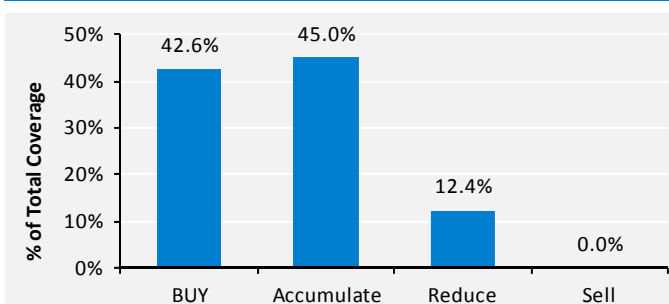
| Y/e March | Q4FY17 | Q1FY18 | Q2FY18 | Q3FY18 |
|--------------------------|--------------|-------------|--------------|--------------|
| Net Revenue | 1,173 | 994 | 1,089 | 1,428 |
| EBITDA | 306 | 170 | 190 | 386 |
| <i>% of revenue</i> | <i>26.1</i> | <i>17.1</i> | <i>17.5</i> | <i>27.0</i> |
| Depr. & Amortization | 67 | 81 | 88 | 113 |
| Net Interest | 39 | 51 | 35 | 37 |
| Other Income | 59 | 29 | 20 | 11 |
| Profit before Tax | 258 | 67 | 88 | 246 |
| Total Tax | 94 | 24 | 29 | 86 |
| Profit after Tax | 166 | 39 | 59 | 163 |
| Adj. PAT | 165 | 44 | 59 | 160 |

Source: Company Data, PL Research.

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