

BUY Zee Entertainment

Your success is our success

A step closer to the merger

Media & Entertainment ▶ Stock Update ▶ November 2, 2023

TARGET PRICE (Rs): 335

Zee's stock rallied over 12% last week, after a decline of ~15% from Aug (post NCLT merger approval) to Oct, when the market also took a fall. A major portion of this rally has come post SAT's order, setting aside SEBI's ruling, which had restricted Punit Goenka from holding Directorial position or KMP in any listed company, including Zee. After an uncertain period regarding top management of the merged entity, the market believes Punit Goenka's return is positive owing to perception of his superior execution skills. This order paves the way for his appointment as MD of the merged entity and minimizes the risk of further delay of the merger. We now expect re-listing of the merged entity in Jan-24. The stock trades at 8.4x Sep-25 broadcasting EV/EBITDA, which is reasonable. We maintain BUY, with TP of Rs335/sh (9.5x Sep-25E broadcasting EV/EBITDA), with a comprehensive review under way, owing to the merger.

Zee Entertainment: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	81,893	80,879	85,541	92,060	99,653
EBITDA	17,221	11,011	13,643	19,481	21,597
Adj. PAT	11,016	5,811	7,720	11,935	13,477
Adj. EPS (Rs)	10.0	0.5	6.7	12.4	14.0
EBITDA margin (%)	21.0	13.6	15.9	21.2	21.7
EBITDA growth (%)	(3.8)	(36.1)	23.9	42.8	10.9
Adj. EPS growth (%)	20.6	(95.0)	1,255.8	84.2	12.9
RoE (%)	10.6	5.5	7.2	10.3	10.8
RoIC (%)	12.0	6.1	7.6	10.8	11.4
P/E (x)	23.5	44.5	33.5	21.7	19.2
EV/EBITDA (x)	14.3	23.2	18.7	13.1	11.8
P/B (x)	2.4	2.5	2.3	2.2	2.0
FCFF yield (%)	(0.5)	(0.8)	(0.8)	1.7	2.0

Source: Company, Emkay Research

Key Events' Timeline

The Zee-Sony merger has faced multiple roadblocks since it was first announced in Sep-21. Post approval from the stock exchanges in Jul-22, the CCI granted approval in Oct-22 after Zee agreed to sell 3 channels to address concerns on competition. The NCLT approved the merger in Aug-23, quashing all objections from lenders. The merger is now close to completion, and we expect Zee's delisting in another 3-4 weeks. We believe the merged entity should relist in Jan-24. Axis Finance and IDBI Bank have challenged NCLT's ruling in the NCLAT which is being heard in the appellate tribunal.

Outlook

On the business front, advertising recovery is expected to be gradual, after four straight quarters of revenue de-growth (on YoY basis), with the company seeing some green shoots led by FMCG players. Subscription growth is likely to be steady, aided by implementation of NTO3.0. Synergies should also start accruing—post completion of the merger—from the consequential enhanced bargaining power with advertisers, content producers and distributors, cost optimization by rationalization of channels and other scale benefits. We believe the proposed deal between Reliance and Disney also augurs well for the Zee-Sony merged entity, and will alleviate pricing concerns to a certain extent while also limiting increase in content cost. We expect the market share to gradually improve, as the management's focus returns to business. We are currently building-in revenue growth of 9-10% over the next two years, coupled with margin enhancement, as the overall advertising environment improves and synergies are realized. The stock has traded at a 10-year average of ~17x, at 1-year forward EV/EBITDA (our valuation adjusts the OTT losses), but has meaningfully de-rated in the last few years, post emergence of corporate governance issues and merger delay.

Target Price – 12M	Sep-24
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	24.5
CMP (02-Nov-23) (Rs)	269.4

Stock Data	Ticker
52-week High (Rs)	291
52-week Low (Rs)	170
Shares outstanding (mn)	960.5
Market-cap (Rs bn)	259
Market-cap (USD mn)	3,108
Net-debt, FY24E (Rs mn)	-2,991
ADTV-3M (mn shares)	13
ADTV-3M (Rs mn)	3,334.0
ADTV-3M (USD mn)	40.0
Free float (%)	96.0
Nifty-50	19,133
INR/USD	83.3
Shareholding, Sep-23	
Promoters (%)	4.0
FPIs/MFs (%)	35.0/42.2

Price Performance			
(%)	1M	3M	12M
Absolute	1.8	18.8	1.7
Rel. to Nifty	4.5	21.2	(3.9)

**Pulkit Chawla**pulkit.chawla@emkayglobal.com
+91 22 6624 2458

Exhibit 1: Pro-forma estimates of merged entity

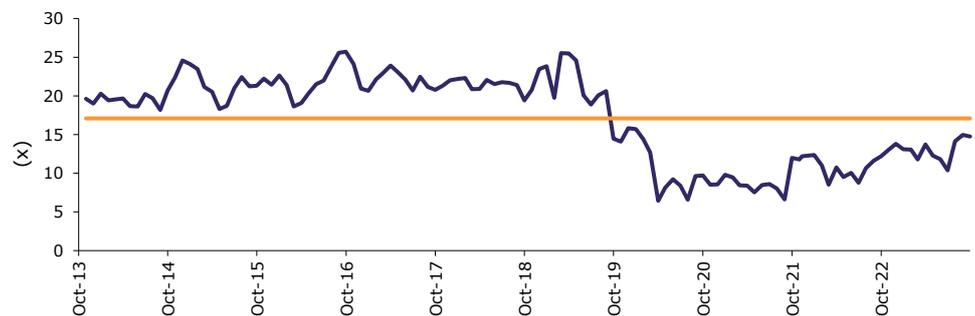
(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E	FY26E
Revenue	1,32,567	1,50,111	1,52,040	1,65,907	1,82,316	1,98,106
Growth	-5%	13%	1%	9%	10%	9%
Expenses						
Prog. & Operating cost	71,270	79,995	86,671	87,910	91,638	98,591
Employee expense	12,291	14,901	14,767	16,520	16,462	17,804
Other expense	20,450	23,586	25,483	27,496	28,674	31,007
Total expenditure	1,04,011	1,18,482	1,26,922	1,31,926	1,36,774	1,47,401
EBITDA	28,556	31,629	25,119	33,981	45,542	50,704
EBITDA margin	22%	21%	17%	20%	25%	26%

Source: Company, Emkay Research

Exhibit 2: Breakdown of valuations

(Rs mn)	Sep-25E
Consol. EBITDA	50,658
OTT loss	(6,686)
Broadcasting EBITDA	57,345
EV/EBITDA (x)	9.5
EV	5,44,777
Net cash	1,39,300
Market cap	6,84,077
Target price (Rs/share)	335

Source: Emkay Research

Exhibit 3: 1-year forward EV/EBITDA valuation

Source: Company, Emkay Research

Zee Entertainment: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	81,893	80,879	85,541	92,060	99,653
Revenue growth (%)	5.9	(1.2)	5.8	7.6	8.2
EBITDA	17,221	11,011	13,643	19,481	21,597
EBITDA growth (%)	(3.8)	(36.1)	23.9	42.8	10.9
Depreciation & Amortization	2,459	3,128	3,685	3,841	4,060
EBIT	14,762	7,884	9,958	15,640	17,537
EBIT growth (%)	(3.2)	(46.6)	26.3	57.1	12.1
Other operating income	0	0	0	0	0
Other income	1,213	797	800	960	960
Financial expense	451	702	684	640	680
PBT	15,524	7,979	10,074	15,960	17,817
Extraordinary items	(1,370)	(5,333)	(1,241)	0	0
Taxes	4,597	2,167	2,348	4,017	4,332
Minority interest	88	0	0	0	0
Income from JV/Associates	1	(1)	(5)	(8)	(8)
Reported PAT	9,646	478	6,479	11,935	13,477
PAT growth (%)	20.6	(95.0)	1,255.8	84.2	12.9
Adjusted PAT	11,016	5,811	7,720	11,935	13,477
Diluted EPS (Rs)	10.0	0.5	6.7	12.4	14.0
Diluted EPS growth (%)	20.6	(95.0)	1,255.8	84.2	0.0
DPS (Rs)	2.5	0.0	2.0	3.7	4.2
Dividend payout (%)	24.9	0.0	30.0	30.0	30.0
EBITDA margin (%)	21.0	13.6	15.9	21.2	21.7
EBIT margin (%)	18.0	9.7	11.6	17.0	17.6
Effective tax rate (%)	29.6	27.2	23.3	25.2	24.3
NOPLAT (pre-IndAS)	10,390	5,743	7,637	11,703	13,273
Shares outstanding (mn)	960.3	960.3	960.3	960.3	960.3

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	15,524	7,979	10,074	15,960	17,817
Others (non-cash items)	0	0	0	0	0
Taxes paid	(4,597)	(2,167)	(2,348)	(4,017)	(4,332)
Change in NWC	(9,849)	(3,436)	(9,346)	(8,981)	(9,885)
Operating cash flow	1,669	1,741	818	6,795	7,652
Capital expenditure	(2,915)	(3,793)	(2,800)	(2,500)	(2,500)
Acquisition of business	0	0	0	0	0
Interest & dividend income	270	270	270	270	270
Investing cash flow	5,630	(2,675)	(2,000)	(1,540)	(1,540)
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	(3,468)	2,057	55	0	0
Payment of lease liabilities	353	2,033	55	0	0
Interest paid	(451)	(702)	(684)	(640)	(680)
Dividend paid (incl tax)	(2,401)	0	(1,944)	(3,580)	(4,043)
Others	11,751	5,526	9,007	0	0
Financing cash flow	5,431	6,881	6,434	(4,220)	(4,723)
Net chg in Cash	12,731	5,948	5,252	1,034	1,388
OCF	1,669	1,741	818	6,795	7,652
Adj. OCF (w/o NWC chg.)	(8,180)	(1,695)	(8,528)	(2,187)	(2,234)
FCFF	(1,246)	(2,052)	(1,982)	4,295	5,152
FCFE	(1,427)	(2,484)	(2,397)	3,924	4,741
OCF/EBITDA (%)	9.7	15.8	6.0	34.9	35.4
FCFE/PAT (%)	(14.8)	(519.8)	(37.0)	32.9	35.2
FCFF/NOPLAT (%)	(12.0)	(35.7)	(26.0)	36.7	38.8

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	961	961	961	961	961
Reserves & Surplus	1,07,665	1,04,222	1,10,572	1,18,926	1,28,360
Net worth	1,08,626	1,05,183	1,11,532	1,19,887	1,29,320
Minority interests	0	0	0	0	0
Deferred tax liability (net)	(3,080)	(4,229)	(4,229)	(4,229)	(4,229)
Total debt	763	2,820	2,875	2,875	2,875
Total liabilities & equity	1,06,309	1,03,773	1,10,178	1,18,533	1,27,966
Net tangible fixed assets	6,073	7,455	7,770	7,764	5,968
Net intangible assets	5,343	4,645	3,376	2,031	582
Net ROU assets	835	1,497	1,566	1,576	3,262
Capital WIP	872	191	191	191	191
Goodwill	0	0	0	0	0
Investments [JV/Associates]	0	0	0	0	0
Cash & equivalents	13,382	6,278	5,866	6,580	7,689
Current assets (ex-cash)	1,02,781	1,09,230	1,18,101	1,30,052	1,41,616
Current Liab. & Prov.	23,005	27,167	26,693	29,662	31,341
NWC (ex-cash)	79,776	82,062	91,408	1,00,390	1,10,275
Total assets	1,06,309	1,03,773	1,10,178	1,18,533	1,27,966
Net debt	(12,619)	(3,457)	(2,991)	(3,705)	(4,813)
Capital employed	1,06,281	1,02,128	1,10,178	1,18,533	1,27,966
Invested capital	92,027	95,660	1,04,121	1,11,761	1,20,087
BVPS (Rs)	113.1	107.8	116.1	124.8	134.7
Net Debt/Equity (x)	(0.1)	0.0	0.0	0.0	0.0
Net Debt/EBITDA (x)	(0.7)	(0.3)	(0.2)	(0.2)	(0.2)
Interest coverage (x)	0.0	0.1	0.1	0.0	0.0
RoCE (%)	15.4	8.3	10.1	14.5	15.0

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	23.5	44.5	33.5	21.7	19.2
P/CE(x)	19.1	28.8	22.5	16.3	14.7
P/B (x)	2.4	2.5	2.3	2.2	2.0
EV/Sales (x)	3.0	3.2	3.0	2.8	2.5
EV/EBITDA (x)	14.3	23.2	18.7	13.1	11.8
EV/EBIT(x)	16.6	32.2	25.5	16.2	14.4
EV/IC (x)	2.7	2.7	2.4	2.3	2.1
FCFF yield (%)	(0.5)	(0.8)	(0.8)	1.7	2.0
FCFE yield (%)	(0.6)	(1.0)	(0.9)	1.5	1.8
Dividend yield (%)	0.9	0.0	0.8	1.4	1.6
DuPont-RoE split					
Net profit margin (%)	13.5	7.2	9.0	13.0	13.5
Total asset turnover (x)	0.8	0.8	0.8	0.8	0.8
Assets/Equity (x)	1.0	1.0	1.0	1.0	1.0
RoE (%)	10.6	5.5	7.2	10.3	10.8
DuPont-RoIC					
NOPLAT margin (%)	12.7	7.1	8.9	12.7	13.3
IC turnover (x)	0.9	0.9	0.9	0.9	0.9
RoIC (%)	12.0	6.1	7.6	10.8	11.4
Operating metrics					
Core NWC days	355.6	370.3	390.0	398.0	403.9
Total NWC days	355.6	370.3	390.0	398.0	403.9
Fixed asset turnover	3.1	2.8	2.6	2.6	2.6
Opex-to-revenue (%)	29.6	31.1	32.7	30.8	30.8

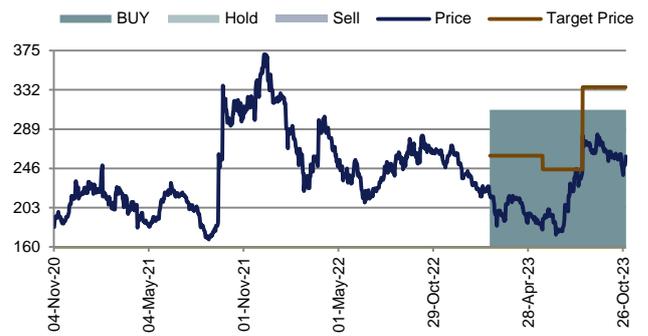
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
10-Aug-23	282	335	Buy	Pulkit Chawla
10-Aug-23	282	265	Buy	Pulkit Chawla
26-May-23	191	245	Buy	Pulkit Chawla
14-Feb-23	216	260	Buy	Pulkit Chawla

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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