Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Zee Entertainment Enterprises Ltd

Strong Q2, Maintain Buy

Consumer Discretionary	Sharekhan code: ZEEL
Reco/View: Buy ↔	CMP: Rs. 263 / Price Target: Rs. 350 ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)		✓	
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

ESG Disclosure Score NEW

ESG RISK RATING 15.62

Updated Aug 08, 2023

Low Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

Company details

Market cap:	Rs. 25,242 cr
52-week high/low:	Rs. 291 / 172
NSE volume: (No of shares)	127.3 lakh
BSE code:	505537
NSE code:	ZEEL
Free float: (No of shares)	92.22 cr

Shareholding (%)

Promoters	4.0
FII	35.0
DII	42.1
Others	18.9

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	3.0	8.6	38.7	0.1
Relative to Sensex	4.0	10.3	33.7	-6.1

Sharekhan Research, Bloomberg

Summary

- Zee' s consolidated revenue stood at Rs. 2,437.8 crore, up 20.2% y-o-y, owing to a 195% y-o-y jump in Other Sales & Services and 8% y-o-y growth in subscription revenues beating our estimates of Rs. 2119.7 crore.
- EBITDA margin improved 584bps q-o-q to 13.6%, led by operating leverage and effective cost management.
- Zee reported a strong quarter as softness in the advertising environment was offset by pickup in Subscription Revenue post NTO 3.0 and owing to higher Syndication & Theatrical Revenue
- We maintain Buy with unchanged PT of Rs 350 as the Zee Sony merger is likely to act as re rating catalyst since it would enhance competitive positions, strengthen content for viewers and drive improvement in operating/financial performance going forward. We estimate proforma PAT of the merged company at Rs. 2,503/Rs. 2,761 crore in FY2025E/FY2026E. This translates into an EPS of 14.4/15.9x its FY2025E/FY2026E.

Zee's consolidated revenue stood at Rs. 2,437.8 crore, up 20.2% y-o-y, owing to a 195% y-o-y jump in Other Sales & Services and 8% y-o-y growth in subscription revenue, beating our estimate of Rs. 2,119.7 crore. However, advertising revenue declined 3.3% y-o-y with domestic ad revenue down 2.1% y-o-y during the quarter. EBITDA margin improved by 584 bps q-o-q to 13.6% (ahead of our expectation), led by operating leverage and effective cost management. Programming and technology cost increased 5.9% q-o-q due to higher content cost in movies (including theatrical releases) and investment in ZEE5. Adjusted net profit stood at Rs. 249.6 crore, ahead of our estimates, led by a beat in operating profitability. Net profit stood at Rs. 123 crore, impacted by merger expenses. The related exceptional item stood at Rs. 119.75 crore. Zee reported a strong quarter as softness in the advertising environment was offset by pickup in subscription revenue post NTO 3.0 and owing to higher syndication and theatrical revenue. We maintain Buy rating with an unchanged price target (PT) of Rs. 350, as the merger is likely to act as a re-rating catalyst since it would enhance competitive positions, strengthen content for viewers, and drive improvement in operating/financial performance going forward. We estimate proforma PAT of the merged company at Rs.2,503 crore/Rs.2,761 crore in FY2025E/FY2026E. This translates into an EPS of 14.4/15.9x its FY2025E/FY2026E.

Key positives

- Q2FY2024 all India TV Network Share improved to 17.9%, up 90bps q-o-q.
- Subscription revenue was up 8.0% y-oy, driven by pickup in linear subscription revenue post NTO 3.0 and step up in ZEE5 subscription.
- Other sales and services revenue was up 195% y-o-y, aided by higher syndication and strong theatrical performance of movies.

Key negatives

- Programming and technology cost increased 5.9% q-o-q due to higher content cost in movies (including theatrical releases) and investment in ZEE5.

Management Commentary

- Management is optimistic on the continuity of gradual ad revenue recovery in Q3 because of the festive season.
- Zee's market share in December quarter will be adversely impacted by Cricket World Cup.
- The TV industry's landscape remains healthy; and post NTO 3.0 implementation, management is optimistic of modest growth in TV subscription revenue.

Revision in estimates – We have fine-tuned our earnings estimates to factor in Q2FY2024 performance.

Our Call

Valuation – Maintain Buy with an unchanged PT of Rs. 350: Zee reported a strong quarter as softness in the advertising environment was offset by pickup in subscription revenue post NTO 3.0 and owing to higher syndication and theatrical revenue. Going ahead, ad revenue is expected to continue its gradual recovery on the back of the festive season, while subscription revenue is expected to stablise post NTO 3.0 and Zee5 is expected to gain further traction. We expect sales/PAT CAGR of 11.4%/34.2% over FY2023-FY2026E. We maintain Buy with an unchanged PT of Rs. 350, as the Zee Sony merger is likely to act as a re-rating catalyst since it would enhance competitive positions, strengthen content for viewers, and drive improvement in operating/financial performance going forward. We estimate the proforma PAT of the merged company at Rs. 2,503 /Rs. 2,761 crore in FY2025E/FY2026E. This translates into an EPS of 14.4/15.9x its FY2025E/FY2026E.

Key Risks

- Slowdown in the economy, which would lower demand, and subdued realisation for advertisement revenue stream.
- Delay in monetisation benefits from digitisation and higher content cost could affect earnings.

Valuation (Consolidated) Rs cr

Particulars	FY2022	FY2023	FY2024E	FY2025E	FY2026E
Revenue	8,185.7	8,087.9	8,807.1	9,962.1	11,191.7
OPM (%)	21.7	13.6	14.0	18.5	19.0
Adjusted PAT	1,190.8	581.1	780.6	1,201.2	1,405.2
% y-o-y growth	6.0	-51.2	34.3	53.9	17.0
Adjusted EPS (Rs.)	12.4	6.0	8.1	12.5	14.6
PE (x)	21.2	43.4	32.3	21.0	18.0
P/B (x)	2.3	2.4	2.2	2.1	1.9
EV/EBITDA (x)	13.5	22.5	18.0	11.8	10.0
RoE (%)	11.0	5.4	6.9	9.8	10.6
RoCE (%)	14.4	7.1	8.1	12.5	13.4

Source: Company; Sharekhan estimates

Performa Financials of Merged Entity

Results (Consolidated) Rs cr

Particulars	FY24E	FY25E	FY26E
Consolidated Revenue	15864	17630	19583
Advertising Revenue	7997	9001	10135
Subscription Revenues	6291	6922	7709
Other Sales & Services	1576	1706	1739
Total Operating Cost	13139	14230	15445
EBITDA	2725	3400	4137
EBITDA margin	17.2%	19.3%	21.1%
PAT	1983	2503	2761
EPS	11.4	14.4	15.9

Source: Company; Sharekhan Research

Q2FY24 result highlights

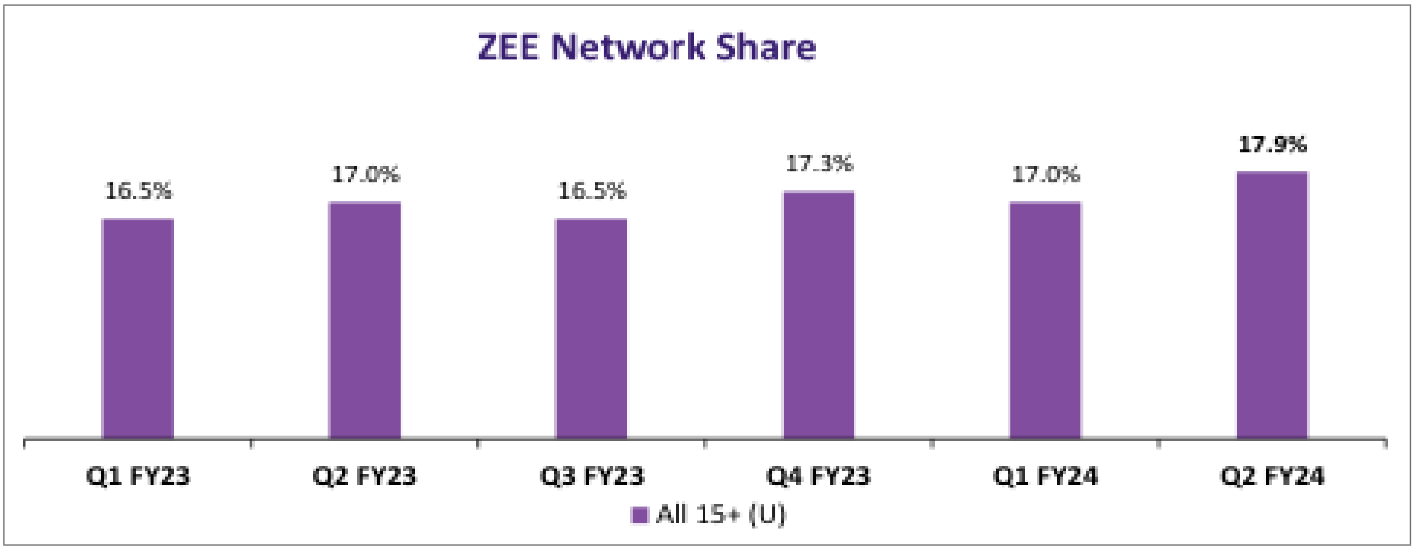
- **Beat across parameters:** Consolidated revenue stood at Rs. 2,438 crore, up 22.9% q-o-q/20.2% y-o-y, owing to a 195% y-o-y jump in other sales and services and 8% y-o-y growth in subscription revenue, beating our estimates of Rs. 2,119.7 crore. However, advertising revenue declined 3.3% y-o-y. Domestic ad revenue fell 2.1% y-o-y during the quarter. EBITDA margin improved by 584bps q-o-q to 13.6%, ahead of our estimates. Adjusted net profit stood at Rs. 249.6 crore, which is ahead of our estimates, led by a beat in operating profitability.
- **Advertising revenue:** The company reported ad revenue at Rs. 979.2 crore, up 4.1% q-o-q/down 3.3% y-o-y, with domestic ad revenue up 4.4% q-o-q. Management is optimistic about the continuity of gradual ad revenue recovery in Q3 due to the festive season. However, Cricket World Cup is likely to impact adversely.
- **Subscription revenue:** Subscription revenue was up 8% y-oy to Rs. 887.8 crore, with domestic subscription increasing by 8.8% y-o-y, while international subscription grew 2.6% y-o-y. However, on a q-o-q basis, there was a slight moderation of a 2.2% decline, given that the company had a lumpy base in Q1. Post NTO 3.0 implementation, the company remains optimistic of modest growth in TV subscription revenue.
- **Linear Business:** The company reported healthy viewership gains in the linear business. Q2FY2024 All India TV Network Share improved to 17.9%, up 90bps q-o-q. The gain was broad base across several key markets, including Zee TV, Marathi Cluster, Hindi Movie channels and Southern channels like Zee Kannada and Telugu.
- **ZEE5's operating metrics:** Revenue stood at Rs. 265.2 crore, up 59% y-o-y. During the quarter, the company released 22 shows and movies (including 5 originals). Revenue was driven by higher subscription and syndication deals. ZEE5's EBITDA loss narrowed to Rs.253.9 crore for the quarter, primarily due to operating leverage and prudent cost management.
- **Zee Studio and Zee Music Company (ZMC):** During the quarter, 2 Hindi and 4 Regional Movies were released. Zee Music Company witnessed 7% q-o-q growth in video views and 4.8 million subscriber addition during quarter on account of new-age catalogue.

Results (Consolidated) **Rs cr**

Particulars	Q2FY24	Q2FY23	Q1FY24	YoY (%)	QoQ (%)
Advertising Revenue	979.2	1,012.8	940.9	-3.3	4.1
Subscription Revenue	887.8	821.9	907.5	8.0	-2.2
Other Sales and Services	570.8	193.7	135.4	194.7	321.6
Total Revenue	**2,437.8**	**2,028.4**	**1,983.8**	**20.2**	**22.9**
Programming and Operating Cost	1425.4	1017.3	1143.3	40.1	24.7
Staff Cost	259.9	235.8	259.6	10.2	0.1
Admin and Selling Expenses	419.8	478.1	426.0	-12.2	-1.5
EBITDA	**332.8**	**297.3**	**154.9**	**11.9**	**114.8**
Depreciation	77.2	81.6	78.5	-5.3	-1.6
Finance Cost	23.4	9.7	23.4	142.0	-0.1
Other Income	71.8	17.6	14.5	307.8	396.4
Financial instruments fair value gain/loss	0.0	0.0	3.8		
PBT	**303.9**	**223.7**	**71.3**	**35.9**	**326.3**
Tax Provision	54.4	64.1	-3.1	-15.2	-1842.0
PAT	**249.6**	**159.6**	**74.4**	**56.4**	**235.4**
Minority Interest	0.0	0.0	0.0		
Shares of associates	0.1	-0.1	0.1		
Net Profit	249.6	159.5	74.5	56.5	235.0
Fair value through profit and loss	0.0	0.0	-3.8		
EO	-126.7	-46.6	-127.9		
Reported Net Income	**123.0**	**112.9**	**-53.4**	**8.9**	**-330.2**
Adjusted Net profit after EO	**249.6**	**159.5**	**70.7**	**56.5**	**253.2**
Adj. EPS (Rs.)	**2.6**	**1.7**	**0.7**	**56.5**	**253.2**
Margin (%)					
GPM	41.5	49.8	42.4	-832	-84
EBITDA margins	13.6	14.7	7.8	-101	584
NPM	10.2	7.9	3.6	238	668
Tax rate	17.9	28.7	-4.4	-1077	2226

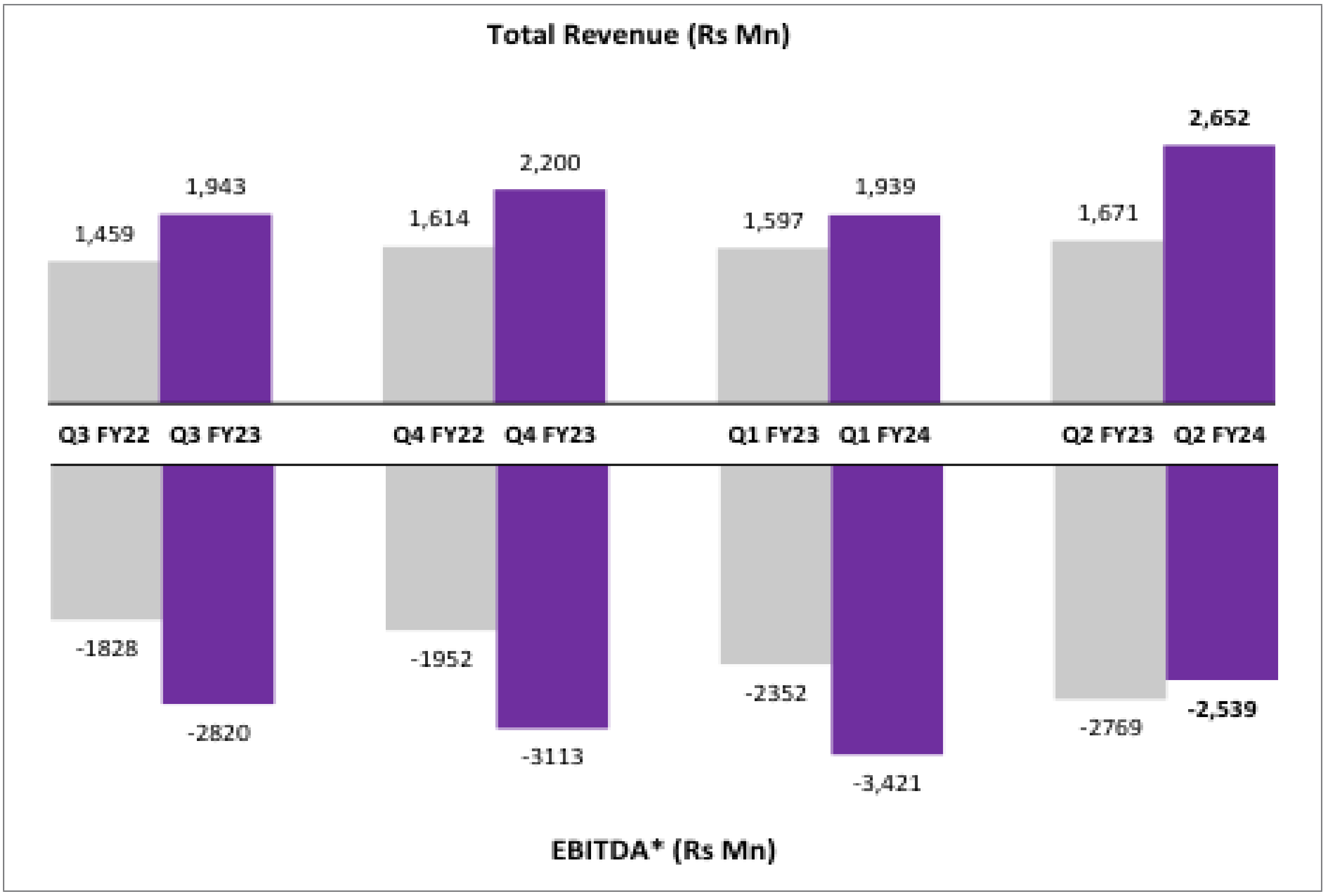
Source: Company; Sharekhan Research

ZEEL's network share trend



Source: Company

Zee5 Revenue and EBITDA* margin trend



Source: Company

Outlook and Valuation

Sector Outlook – Expect gradual recovery in the M&E industry

As per a KPMG report, the Indian media and entertainment (M&E) industry's growth would be significantly impacted by nationwide lockdown restrictions owing to the pandemic, slowdown in advertising spends, and breaking down of content supply chains. The India Media & Entertainment sector grew 20% in 2022 to reach Rs 2.1trillion. We expect television as a medium to continue to stay relevant and the most preferred choice for advertisers, given its reach to the mass audience.

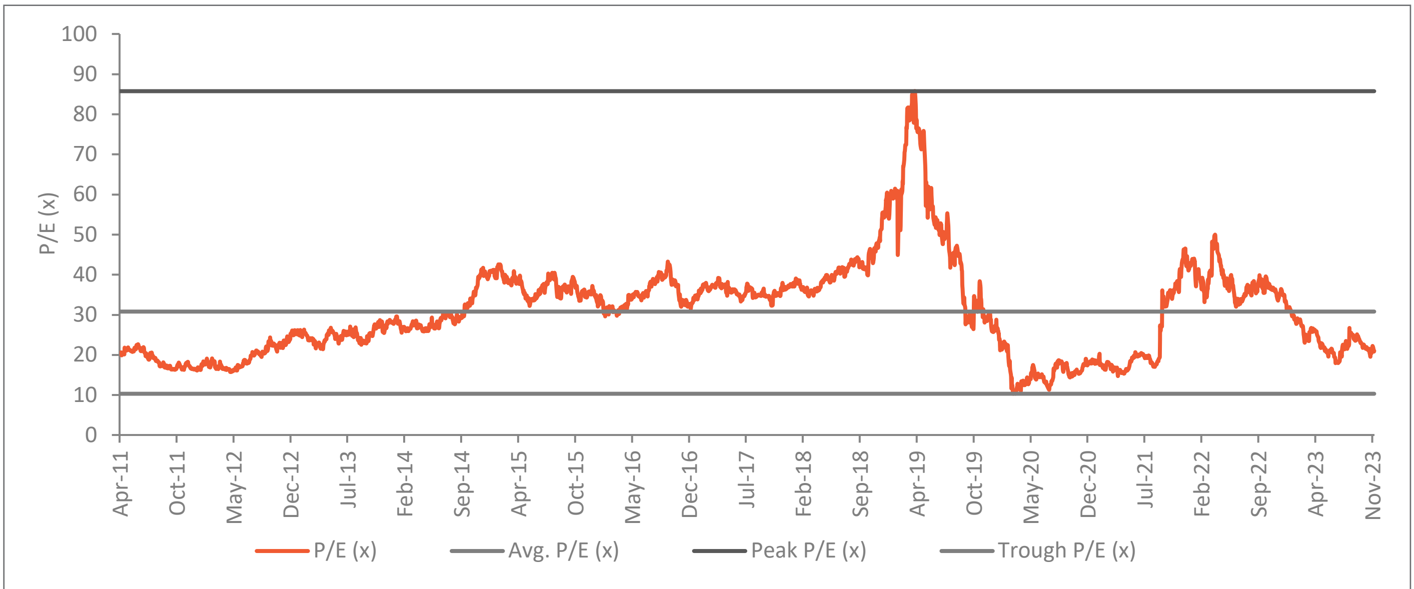
Company Outlook – Proposed merger would enhance reach potential

ZEEL is one of India's leading M&E companies, primarily engaged in broadcasting, movies and music production and digital business. The company has a strong presence in the GEC segment, given deep regional penetration and has expanded its presence in movie genre with the launch of new channels. We believe ZEE5's focus on aggressively building a content catalogue is a step in the right direction, given the hyper-competitive nature of the market. The merger is expected to strengthen ZEEL's portfolio with Sony's sports, kids and English movie content. Management stated that the priority of focus of the combined entity would be 1) advertisement, 2) subscription, and 3) international business. The combined entity will be in a superior position on maximizing its revenue, given its reach potential and investments on the digital and sports business.

Valuation – Maintain Buy with an unchanged PT of Rs. 350

Zee reported a strong quarter as softness in the advertising environment was offset by pickup in subscription revenue post NTO 3.0 and owing to higher syndication and theatrical revenue. Going ahead, ad revenue is expected to continue its gradual recovery on the back of the festive season, while subscription revenue is expected to stablise post NTO 3.0 and Zee5 is expected to gain further traction. We expect sales/PAT CAGR of 11.4%/34.2% over FY2023-FY2026E. We maintain Buy with an unchanged PT of Rs. 350, as the Zee Sony merger is likely to act as a re-rating catalyst since it would enhance competitive positions, strengthen content for viewers, and drive improvement in operating/financial performance going forward. We estimate the proforma PAT of the merged company at Rs. 2,503 /Rs. 2,761 crore in FY2025E/FY2026E. This translates into an EPS of 14.4/15.9x its FY2025E/FY2026E.

One-year forward P/E (x) band



Source: Sharekhan Research

About the company

ZEEL is one of India's largest vertically integrated M&E companies, primarily engaged in broadcasting and content development with the widest language footprint, movies and music production, live events, and digital business. The company is among 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 more than 170 countries and has a reach to over 1.3 billion viewers.

Investment theme

The company has delivered a strong revenue CAGR of ~7% over FY2015-FY2023 despite strict lockdown restrictions owing to outbreak of COVID-19 in FY2021. ZEEL's management remains confident of delivering advertising revenue growth, ahead of the industry's growth rate. Hence, the company is considered as one of the leading players under the structural India consumption theme. The proposed merger with SPNI will create the largest media company in India across languages and genres, with around 25% market share.

Key Risks

Unfavourable regulatory guidelines impacting subscription revenue, a slowdown in the economic environment leading to lower demand, and subdued realisation for advertisement revenue stream. Delay in monetisation benefit from digitisation and increased investments in ZEE5 could affect earnings.

Additional Data

Key management personnel

Punit Goenka	Managing Director and CEO
Amit Goenka	President - Digital Businesses & Platforms
Anurag Bedi	Chief Business Officer – Zee Music
Rohit Kumar Gupta	Chief Financial Officer
Ashish Agarwal	Chief Compliance Officer & Company Secretary

Source: Bloomberg

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	ICICI Prudential Asset Management	7.7
2	Sprucegrove Investment Management	7.3
3	Nippon Life India Asset Management	6.5
4	Vanguard Group Inc/The	5.8
5	Life Insurance Corp of India	5.1
6	HDFC Asset Management Co Ltd	4.9
7	Amansa Holdings Pvt Ltd	4.7
8	BlackRock Inc	3.0
9	Vanguard International Value Fund	2.5
10	Tata Asset Management Pvt Ltd	2.3

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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