

Stock Update

Good operating performance, maintain Buy

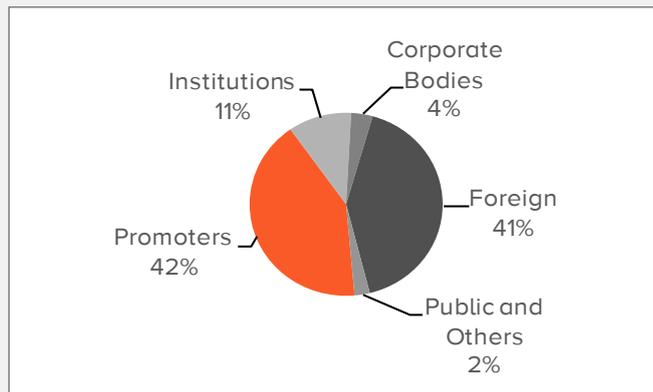
Zee Entertainment Enterprises

Reco: Buy | CMP: Rs589

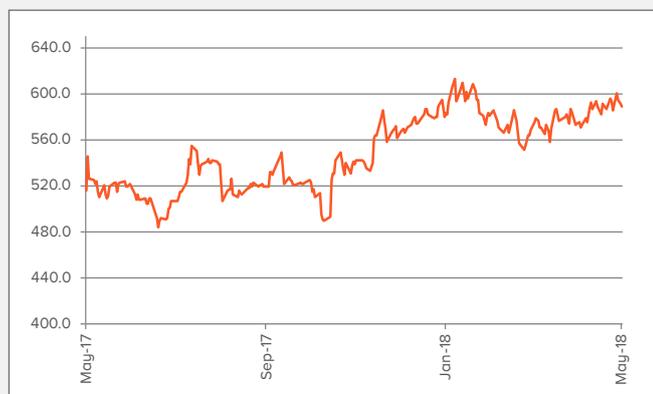
Company details

Price target:	Rs680
Market cap:	Rs56,571 cr
52-week high/low:	Rs619/477
NSE volume: (No of shares)	18.5 lakh
BSE code:	505537
NSE code:	ZEEL
Sharekhan code:	ZEEL
Free float: (No of shares)	56.1 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	3.4	1.8	9.9	19.9
Relative to Sensex	-1.0	-2.1	3.3	0.4

Key points

- ♦ **Strong ad revenue momentum continues:** For Q4FY2018, overall revenue of Zee Entertainment Enterprises Limited (ZEEL) grew by 12.9% y-o-y to Rs. 1,725.3 crore. Revenue growth was primarily led by impressive advertisement revenue growth of 23.9% y-o-y (though on a low base). Domestic ad revenue (adjusted for sports) grew by 24.9% y-o-y on account of strong recovery in advertising spends across categories, while international ad revenue grew by 26.1% y-o-y to Rs. 66.2 crore. Subscription revenue declined by 2.0% y-o-y during the quarter, owing to 0.7% y-o-y and 8% y-o-y drop in domestic and international subscription revenue, respectively. Domestic subscription revenue (excluding sports) grew by 18.1% y-o-y to Rs. 452.1 crore, led by closure of deals in the quarter and catch-up revenue associated with it. Revenue from other sales and services increased by 5% y-o-y to Rs. 129.2 crore, driven by good performance of two Marathi movies at the box office.
- ♦ **Margins beat expectations:** ZEEL reported better-than-expected operating profit margin (OPM) despite increased programming hours in regional channels, higher movie amortisation and content cost for ZEE5 and increased promotional cost for ZEE5. OPM during the quarter declined by around 140 BPS to 29.3%, ahead of our estimates of 27%. Low profitability was offset by higher-than-expected other income (up 60.4% y-o-y), leading to 6% y-o-y growth in adjusted net profit (excluding MTM gain of Rs. 103.2 crore and one-time tax expense of Rs. 135.2 crore).
- ♦ **Confident to deliver above-industry average ad revenue growth:** Management remains confident on delivering ahead-of-industry advertisement revenue growth (i.e., around 11-12% y-o-y) in FY2019, driven by regional channels, products campaigns, recovery in rural demand and healthy growth momentum in international markets. The ongoing litigation on TRAI's tariff order along with consolidation in the DTH industry is impacting contract renewal with distributors, though management expects low teen subscription revenue growth in the domestic market and muted subscription revenue growth in the international market in FY2019. Increased inventory in FY2018 was

due to investments in acquisition of future rights and advance purchase of rights of under-production movies, which would inch up the amortisation cost going ahead. Management continues to reiterate its comfort, with OPM of over 30% annually, factoring in investments in digital content.

- ◆ **Maintain Buy with a PT of Rs. 680:** We have marginally tweaked our earnings estimates for FY2019E, factoring in higher programming cost for regional channels and ZEE5 and promotional expenses, which are largely being

offset by lowering effective tax rate to 35% (from 38% earlier). We have broadly maintained our earnings estimates for FY2020E, given strong ad revenue growth momentum, the ramp-up of its movie and music business and sustenance of profitability despite digital investments. We continue to remain positive on ZEEL, as it is one of the key beneficiaries of the structural pan-India media consumption theme. We maintain our Buy rating on the stock with an unchanged price target (PT) of Rs. 680.

Valuations

Particulars	Rs cr			
	FY17	FY18	FY19E	FY20E
Revenue	6,434.2	6,685.7	7,985.4	9,313.7
EBITDA margin (%)	29.9	31.1	32.7	33.5
Adjusted net profit	1,218.4	1,482.8	1,678.8	2,003.2
EPS (Rs)	12.7	15.4	17.5	20.9
P/E (x)	46.4	38.1	33.7	28.2
EV/EBITDA (x)	28.8	27.3	20.9	17.1
RoE (%)	18.3	19.6	19.1	19.4
RoCE (%)	24.4	22.2	25.3	26.8

Results

Particulars	Rs cr				
	Q4FY18	Q4FY17	Q3FY18	YoY (%)	QoQ (%)
Advertising revenue	1,049.6	846.9	1,202.0	23.9	-12.7
Subscription revenue	546.5	558.0	501.7	-2.0	8.9
Other sales and services	129.2	123.1	134.4	5.0	-3.8
Total revenue	1,725.3	1,528.0	1,838.1	12.9	-6.1
Programming and operating cost	689.3	645.8	673.0	6.7	2.4
Staff cost	163.8	159.3	153.5	2.9	6.7
Admin & selling expenses	366.0	254.2	417.1	44.0	-12.3
EBITDA	506.2	468.7	594.4	8.0	-14.8
Depreciation	59.4	31.6	50.5	87.9	17.8
Finance cost	127.4	112.2	2.4	13.6	-
Other income	88.1	54.9	48.0	60.4	83.4
Tax provision	280.5	146.8	173.9	91.2	61.3
Reported net income	231.0	1,515.2	374.3	-	-38.3
EO: Fair value through profit and loss	-103.2	-47.0	41.9	-	-
EO: exceptional items	0.0	1,223.4	0.0		
Adjusted net income	259.3	244.7	416.2	6.0	-37.7
EPS (Rs)	2.7	2.5	4.3	6.0	-37.7
Margin (%)				BPS	BPS
EBITDA margin	29.3	30.7	32.3	-134	-300
NPM	7.4	16.0	22.6	-861	-1523

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