Stock Update

Ambition on right path

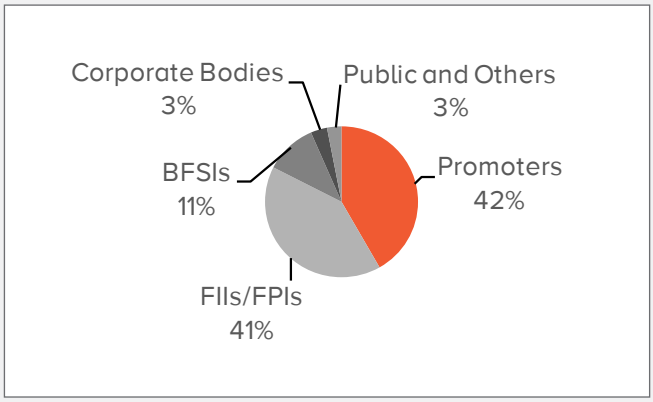
Zee Entertainment Enterprises

Reco: Buy | CMP: Rs489

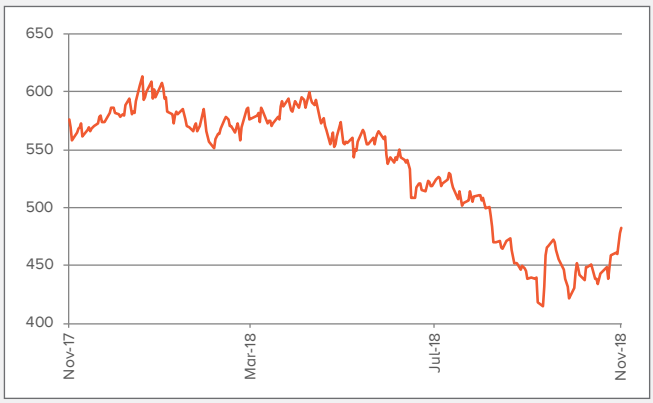
Company details

Price target:	Rs550
Market cap:	Rs46,924 cr
52-week high/low:	Rs619/410
NSE volume: (No of shares)	26.0 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	11.8	-4.5	-13.0	-16.0
Relative to Sensex	5.2	1.9	-16.7	-22.9

Key points

We interacted with the management of Zee Entertainment Limited (ZEEL) to get its perspective on 1) value-maximisation by bringing-in a strategic investor, 2) progress in scaling-up of ZEE5, 3) outlook on its core business, 4) investments around movies and music business and 5) targeted margin band.

- **Ambition to become leading global media-tech player:** ZEEL's management highlighted that association with a large strategic partner would transform the company from a pure content company to a leading global media-tech company by a) leveraging the strategic investor's advanced technologies to its OTT platform or b) expanding its presence beyond South-Asian diaspora. The advanced technology would help the company prepare for the next level of entertainment in the OTT space like gamification, content/data driven ads, new form of interactive content, integrating networks, AI for content discovery/recommendations/ trailers/promos and among others. Further, the company is currently associated with many technology vendors for its ZEE5 platform. With the collaboration of a strong technological partner, the company could possibly build an in-house team to meet the future technology requirements for distributing contents on platform - which would differentiate its OTT platform from the competitors.

- **Accelerating investments in digital content to continue:** Given the fact that content for the digital platform is more expensive than TV content, ZEEL needs to spend a large sum on content to garner incremental subscribers on its digital platform. The company has released 4-5 shows across four different languages on ZEE5 during this month, resulting in around 45 originals on its platform since the release of its first show in July 2018. The company plans to release one original show in six languages every month (at least 72 shows per annum and aims to have 90 new releases every year) with original programming hours of 400-500 hours on OTT platform. The amortization of series content on the digital platform is similar to the television business, with 80% being amortised in first year and the rest 20% equally in second and third year. However, the content cost for premium movies is amortised over a period of five years. The company acquired Margo about

1.5 years back and the technology developed by Margo helps in reducing the data consumption of consumers. Though the ads on the digital platform started contributing to advertisement revenue, the management believes that its recent deals with telcos (Airtel and Reliance Jio) are expected to boost the subscribers 'addition.

- **Core business continues to perform on expected lines:** The management expects ad revenue to grow in high teens in FY2019E on account of a good festive season and strong campaigns across the sectors. On the subscription front, the company expects the growth would be higher than lower-teens in FY2019E on account of strong growth in 1HFY2019.However, the subscription revenues is expected to be at lower-teens in FY2020E given the uncertainty around the new regulatory framework for the broadcasters. The company aims to report operating margins in the excess of 30% in coming years despite the highest investment intensity in ZEE5 over the next 18 months.

- **Steady progress in movies business, achieves breakeven in music business:** The Company plans to release 10-12 movies each year with the capex of Rs. 150-200 crores per annum. In FY2019, the company has released five movies till date. In the previous week, Zee studio's co-produced Marathi movie named "Naal" was released, which is getting good response in box office. The music business of the company has achieved break-even at the operating level. Inventory is estimated to increase (around 50% of the increase in inventories in FY2018) further in FY2019E owing to the additions of content at faster pace and the inventory levels are expected to come down post FY2020E.

- **Reduction in promoters' pledged holdings not linked to deal:** The management highlighted that the promoters have been reducing its pledged shares in a gradual manner of the past few quarters. The promoters are exiting few unlisted businesses/projects like infra, power transmission, solar power assets etc, which are expected to provide further liquidity to the promoters and help them to get there pledged shares released going forward as well.

- **Maintain Buy with a revised PT of Rs. 550:** We believe the core business will continue to perform well in the coming years, with industry-leading growth in advertisement revenues (61% of total revenues) and steady performance in subscription revenues. However, uncertainties surrounding the deal structure make us take a cautious stand at the current juncture. Given the expected adjusted net profit CAGR of 19% over FY2018-FY2020E, we maintain Buy rating on the stock with a revised price target (PT) of Rs. 550.

Valuation Rs cr

Particulars	FY17	FY18	FY19E	FY20E
Revenue	6,434.2	6,685.7	8,012.5	9,161.0
EBITDA margin (%)	29.9	31.1	32.2	32.5
Adjusted net profit	1,218.4	1,351.2	1,639.8	1,912.3
EPS (Rs)	12.7	14.1	17.1	19.9
P/E (x)	38.5	34.7	28.6	24.5
EV/EBITDA (x)	24.1	22.8	17.7	15.0
RoE (%)	18.3	17.9	18.7	18.7
RoCE (%)	23.3	20.9	23.9	24.6

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Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

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