stock update

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Zee Entertainment Enterprises

Reco: Buy

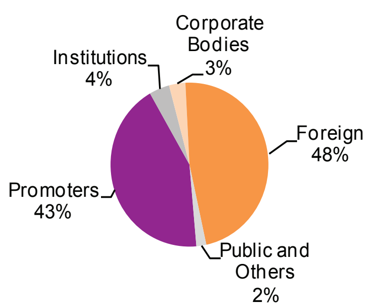
Good show, ads growth and margins surprise positively

CMP: Rs418

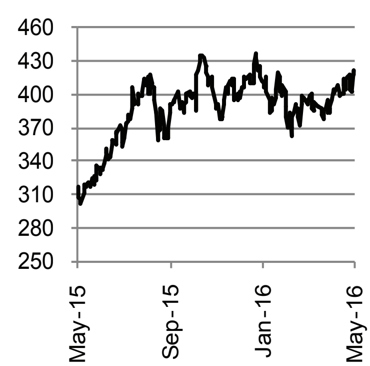
Company details

Price target:	Rs470
Market cap:	Rs40,118 cr
52-week high/low:	Rs440/300
NSE volume: (No of shares)	19.2 lakh
BSE code:	505537
NSE code:	ZEEL
Sharekhan code:	ZEEL
Free float: (No of shares)	54.7 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	3.9	-1.4	1.2	29.8
Relative to Sensex	2.6	-4.1	4.9	35.3

Key points

- **Ads growth and margins surprise positively:** For Q4FY2016, Zee Entertainment Enterprises Ltd (ZEEL) delivered a revenue growth of 13.7% YoY at Rs1,531.6 crore. The growth was driven by 29.1% Y-o-Y growth in ads revenue (ahead of estimates, led by a strong growth in international ads revenue up by 38% QoQ owing to new launches of channels in Africa along with additional ads revenue for Asia Cup T20 held in Pakistan), while subscription revenue was up by 16.4% YoY (ahead of estimates owing to some catch-up in revenues booked in some international markets, international subscription revenue was up by 35.3% YoY). The OPM performance surprised positively, improved by 690BPS YoY at 27%, on the back of lower selling, general and administrative (SG&A) expenses. The other income was down by 18.9% YoY and tax provisioning was higher at 37.8% vs 24.4% in Q4FY2015. The net income for the quarter grew by 12.9% YoY to Rs260.6 crore.
- **Ads revenues continue to grow better than industry in FY2017, margins to be better than FY2016:** For FY2017, the management expects that the industry ads revenue growth range of 15-16% will continue to beat the industry average led by market-share gain. The ads spending by FMCG will be steady during H1FY2017, while the auto and telecom companies are expected to ramp-up in ads spending during FY2017; e-commerce growth is expected to remain steady after a strong growth in the last two to three years. The losses in sports segment is expected to be higher than Rs100 crore as two major cricket series are scheduled in FY2017. The EBITDA margin for FY2017 is expected to be better than FY2016 (25.8%). The subscriptions growth will be at mid-single digit in FY2017, despite a strong growth of 15% YoY in FY2016. Plans to foray aggressively into movie business (one movie is already lined-up in Hindi for FY2017) as well as the production of other regional movies business in FY2017, expecting a capex of Rs100-150 crore.
- **Maintain Buy with a price target of Rs470:** ZEEL continues to outperform the broadcasting advertising market and expects to continue the momentum with improvement in the macro economy. The management indicated that the strong momentum will continue in the ads revenue growth led by higher investments in contents along with focus on international markets and market-share gains. We have marginally tweaked our estimates for FY2017-18 owing to a slower-than-expected growth in the subscription space. Nevertheless, we continue to see ZEEL as the prime beneficiary of macro revival and digitisation. Therefore, we have maintained our Buy rating on the stock with an unchanged price target of Rs470.

Results — Rs cr

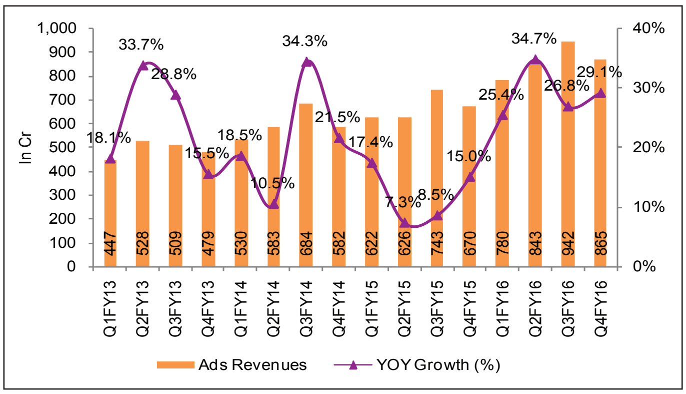
Particulars	Q4FY16	Q4FY15	Q3FY16	YoY (%)	QoQ (%)
Advertising revenues	864.5	669.7	941.9	29.1	-8.2
Subscription revenues	594.4	510.77	521.8	16.4	13.9
Other sales and services	72.7	166.62	131.4	-56.4	-44.7
Total revenues	1,531.6	1,347.1	1,595.1	13.7	-4.0
Programming and operating cost	688.1	620.1	702.3	11.0	-2.0
Gross profit	843.5	727.0	892.8	16.0	-5.5
Staff cost	129.7	120.9	128.8	7.3	0.7
Admin & selling expenses	300.2	335.3	333.7	-10.5	-10.0
Total expenditure	1,118.1	1,076.3	1,164.9	3.9	-4.0
EBITDA	413.6	270.8	430.2	52.7	-3.9
Depreciation	27.3	17.4	20.1	57.1	35.8
Finance cost	4.2	3.0	4.5	41.3	-4.7
Other income	45.8	56.4	29.0	-18.9	57.9
PBT	427.8	306.8	434.6	39.4	-1.6
Tax provision	161.8	74.9	160.2	116.2	1.0
PAT	265.9	231.9	274.4	14.7	-3.1
Minority interest	-5.0	2.5	0.6	-298.4	-926.7
Shares of associates	-0.4	-3.7	0.0		
Reported net income	260.6	230.8	275.0	12.9	-5.2
EPS (Rs)	2.7	2.4	2.9	12.9	-5.2
Margin (%)					
GPM	55.1	54.0	56.0		
EBITDA margins	27.0	20.1	27.0		
NPM	17.0	17.1	17.2		
Tax rate	37.8	24.4	36.9		

Valuations Rs cr

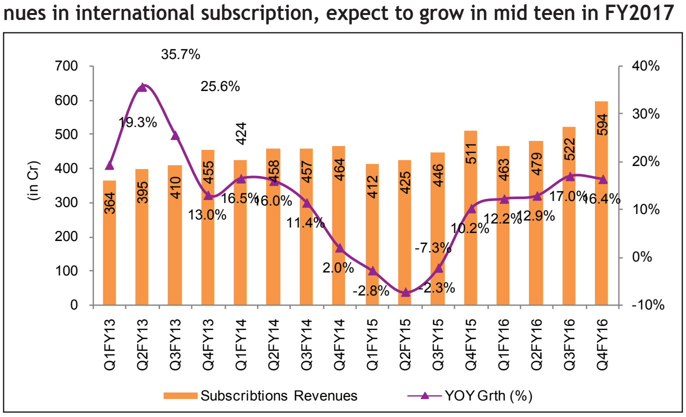
Particulars	FY15	FY16	FY17E	FY18E
Revenues	4,883.7	5,851.5	6,776.2	8,040.9
EBITDA margins (%)	25.7	25.8	27.0	27.5
Net profit (Rs cr)	977.5	1,026.8	1,345.3	1,613.1
EPS (Rs)	8.6	9.6	12.5	15.3
PE (x)	48.6	43.7	33.3	27.2
EV/EBITDA (x)	32.3	26.5	21.6	17.6
RoE (%)	19.0	18.2	20.7	21.9
RoCE (%)	22.7	24.1	26.6	28.5

*EPS after preference dividend

Ad revenues: Grew by 29% YoY, much higher than industry average growth of 14-15%

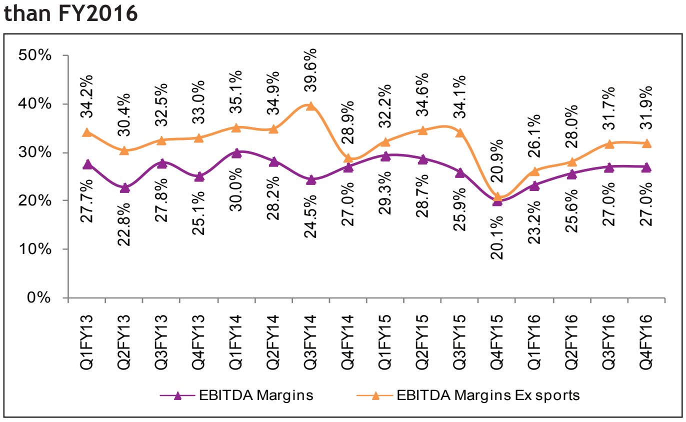


Subscription revenues: Grew by 16% YoY, led by some catch-up in revenues in international subscription, expect to grow in mid teen in FY2017



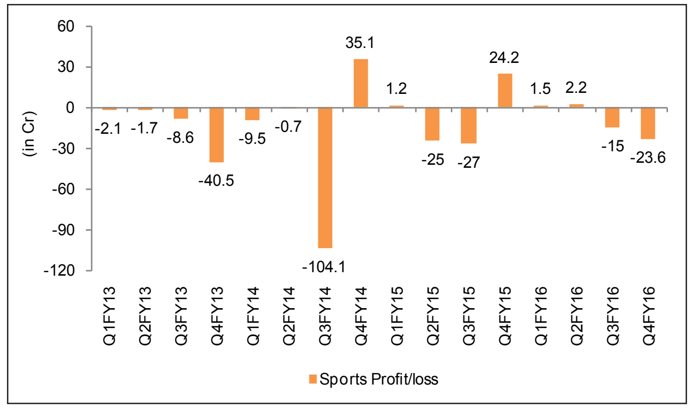
Source: Company

Margins improved YoY; expect margins for FY2017 to be higher than FY2016



Source: Company

Sports business losses to be higher than Rs100 crore in FY2017



Other highlights:

- The management expects the ads revenue growth for the industry will be in the range of 15-16% year on year (YoY) in FY2017. Further, it stated that the key growth drivers for ads revenue will be; (a) higher investment in contents; (b) focus on international business; and (c) gaining market share from the digitisation process. Further, the advertising revenue could benefit from the revival in telecom and auto verticals in the domestic market. The fast moving consumer goods (FMCG) and internet continue to grow at a steady rate. The management expects it to continue to beat the industry ads growth led by market-share gains.
- Sports business revenue declined by 4.7% YoY to Rs160.1 crore, while operating loss stood at Rs23.6 crore against a profit of Rs24.2 crore in Q4FY2015. The management expects sports losses to be higher than Rs100 crore for FY2017 as two cricket series are scheduled in FY2017.
- The management noted that it is waiting for licences from the government to launch HD channels in regional languages.
- The company plans to enter the movie production business in Hindi as well as other regional languages apart from Marathi. One Hindi movie is already lined up for FY2017 and the management expects the production of regional movies will increase in FY2017.
- The company's cash and cash equivalents currently stand at Rs2,046 crore as against Rs1,834 crore reported in the previous quarter.

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Compliance Officer: Ms. Namita Amod Godbole; Tel: 022-6115000; e-mail: compliance@sharekhan.com • Contact: myaccount@sharekhan.com