India TV Broadcasting

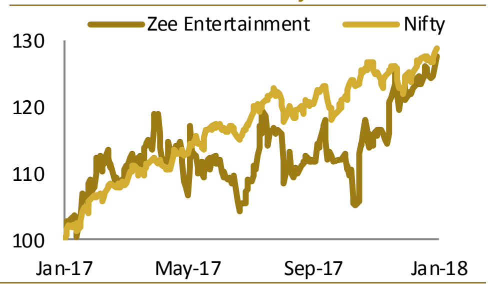
Dec'17 Results Preview

Healthy advertisement growth

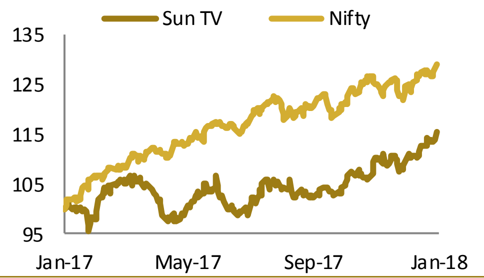
	CMP(`)	3M ret (%)	Yearly (%)
Nifty	10,632	6	28
Z IN	581	11	24
SUNTV IN	1,022	25	91

	Rating	FDEPS (`)	
		FY18E	FY19E
Z IN	Hold	15.9	18.0
SUNTV IN	Buy	27.8	32.4

Zee Entertainment vs Nifty



Sun TV vs Nifty



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3QFY18E preview – We estimate Q3 to be healthy as adv growth for broadcasters have come back in the months of November and December. Due to shift in festive season to Q2FY18 compared to base, ad growth in October was muted. We expect ad industry to report low double digit growth. We expect a healthy growth in TV advertisement spends led by (1) FMCG — accounts for ~50-55% of advertisement spends & has taken advertisement spend cut on account of GST. We expect Zee to deliver 15% YoY growth in its advertisement revenues. We expect Sun TV to report a 9.5% increase in advertisement growth.

Zee Entertainment Enterprises – Advertisement revenue is expected to grow at 15% YoY on a low base of 1.4% YoY, higher compared to previous quarter due to strong domestic ad environment during November and December months. Subscription revenues are expected to decline YoY due to loss of sports business. However, like-to-like basis, subscription is expected to grow 6% as deal negotiations are postponed to the next quarter. We expect EBITDA margin to be lower on a like-to-like basis YoY as company continues to investment in original programming hours

Sun TV Network - We expect Sun TV to report ~9.5% YoY increase in advertisement growth on a base of (7.6)% YoY on account of demonetization in the base. Sun TV has changed its programming strategy. DTH revenue is set to grow by ~15% YoY in Q3FY18 (14.3% YoY in Q2FY18 and 10.7% in Q3FY17). We expect lower margins for Q3FY18 versus Q3FY17 on account of increase in content cost due to change in business model. We estimate EBITDA margin of 72.8% and a post MAC of 60.3%, up ~220bps YoY on account of lower MAC. With digitization of 48mn homes in Southern markets alone in phase III/IV, we expect, improvement in revenues.

Outlook - We expect competition in OTT to heat up going forward as ZEE launches its new OTT platform - Z5 and on account of further investments in original digital programming hours by ALT, Netflix and Amazon India. Acquisition of Disney will strengthen Star India's portfolio. DTH players will strengthen subscriber share in Phase IV markets.

Our theme - Why Sun will significantly outperform Zee stock? Reasons according to us for Sun to significantly outperform Zee stock returns over medium-to-long term: 1) Sun's advertisement revenue growth will continue to underperform growth in regional TV advertisement-spends, while we believe Zee will continue to outperform national TV ad growth over the long term— we believe we are conservative on Sun's estimates; 2) Digitisation upside potential over longer term for Sun is greater compared with Zee; 3) Better operational performance for Sun's IPL appears more certain than for Zee in Sports; 4) Potential subscription upside from US Cable is not captured in our Sun estimates; and 5) Valuation discount of Sun relative to Zee is still comparatively high.

Exhibit 1: Key Financials for quarter ending December 2017

(` mn)	Revenue	QoQ (%)	EBITDA	QoQ (%)	PAT	QoQ (%)
Z IN	17,996	13.8	5,671	15.5	4,593	(2.5)
SUNTV IN	6,803	0.7	4,948	(0.2)	2,790	(2.0)

Source: Trust

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