India TV Broadcasting

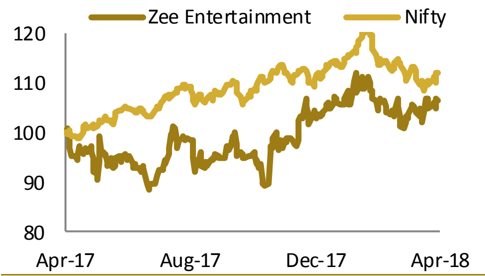
Mar'18 Results Preview

Healthy advertisement growth but soft margins

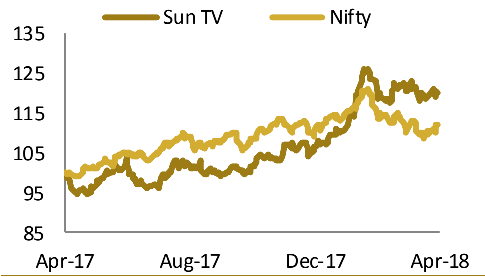
	CMP(`)	3M ret (%)	Yearly (%)
Nifty	10,417	(2.2)	12.8
Z IN	575	(0.8)	6.5
SUNTV IN	874	(16.3)	10.1

	Rating	FDEPS (`)	
		FY19E	FY20E
Z IN	Hold	17.9	20.7
SUNTV IN	Buy	34.7	39.9

Zee Entertainment vs Nifty



Sun TV vs Nifty



ANALYST
Naushil Shah
+91-22 4224 5125
naushil.shah@trustgroup.co.in

4QFY18E preview – We estimate Q4 to be healthy as adv growth for broadcasters. 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 24% YoY growth in its advertisement revenues. We expect Sun TV to report a 13% increase in advertisement growth. FMCG ad spends need to be closely tracked as companies are rationalising ad spends.

Zee Entertainment Enterprises – Advertisement revenue is expected to grow at 24% YoY LTL on a low base of (2)% YoY aided by IWPL and RBNL properties (25.8% YoY in Q3FY18). Subscription revenues are expected to decline YoY due to loss of sports business. However, like-to-like basis, subscription is expected to grow 15% as deal negotiations are expected to happen in the quarter. We expect EBITDA margin to be lower by 480 bps QoQ on a like-to-like basis YoY as company continues to investment in original programming hours and higher marketing costs incurred for the launch of ZEE5. We expect competition in OTT to pick up as ZEE has plans to host over 90 plus original shows by March 2019 end on its new OTT platform ZEE5 and further investments in original digital programming hours by ALT digital, Netflix and Amazon India.

Sun TV Network - We expect Sun TV to report ~13% YoY increase in advertisement growth on a base of (6.7)% YoY on account of demonetization in the base. Sun TV has changed its programming strategy. DTH revenue is set to grow by ~13% YoY in Q4FY18 (12% YoY in Q3FY18 and 9.6% in Q4FY17). We expect flattish margins for Q4FY18 versus Q4FY17 on account of increase in content cost due to change in business model. We estimate EBITDA margin of 67.9% and a post MAC of 54.4%. 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 March 2018

(` mn)	Revenue	QoQ (%)	EBITDA	QoQ (%)	PAT	QoQ (%)
Z IN	17,114	(6.9)	4,706	(20.8)	2,847	(21.7)
SUNTV IN	6,665	(2.5)	4,528	(8.0)	2,461	(7.8)

Source: Trust

Institutional Equity Team

Names	Designation	Sectors	Email ID's	Desk-Number
Naren Shah	Head Of Equity		naren.shah@trustgroup.in	+91-22-4084-5074
Sales Trading & Dealing				
Rajesh Ashar	Sales Trader		rajesh.ashar@trustgroup.in	+91-22-4224-5123
Dealing Desk			trustfin@bloomberg.net	+91-22-4084-5089
Sales				
Vijay Shah	Sales		vijay.shah@trustgroup.in	+91-22-4084-5090
Mayur Joshi	Sales		mayur.joshi@trustgroup.in	+91-22-4084-5028
Research Team				
Binyam Taddese	Analyst	Rates & Credit Research	binyam.taddese@trustgroup.in	+91-22-4224-5037
Naushil Shah	Analyst	Technology, Media & Telecom	naushil.shah@trustgroup.in	+91-22-4224-5125
Tushar Chaudhari	Analyst	Commodities, Auto & Mid-caps	tushar.chaudhari@trustgroup.in	+91-22-4224-5119

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