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India TV Broadcasting

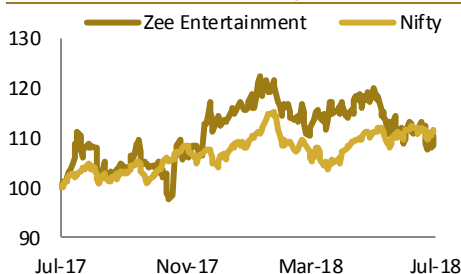
Jun'18 Results Preview

Healthy advertisement growth

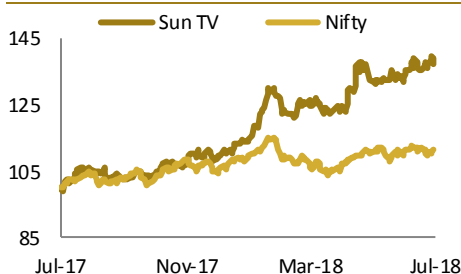
	CMP(₹)	3M ret (%)	Yearly (%)
Nifty	10,773	4	11
Z IN	545	(7)	7
SUNTV IN	794	(11)	(4)

	Rating	FDEPS (₹)	
		FY19E	FY20E
Z IN	Hold	17.2	19.9
SUNTV IN	Buy	34.1	39.5

Zee Entertainment vs Nifty



Sun TV vs Nifty



1QFY19E preview – We estimate Q1 to be healthy as advertisement growth would be robust for broadcasters. We estimate the overall 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. Subscription revenue of TV broadcasters is expected to clock low-teen growth benefiting from renegotiation of deals. We expect Zee to deliver ~19% YoY growth in its advertisement revenues. We expect Sun TV to report a 18% 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 ~19% YoY LTL on a low base of 6% YoY. Subscription revenues are expected to grow ~12% YoY. International subscription is expected to report 5% YoY dip on a negative base of 9.3% YoY (-8% YoY in Q4FY18). We expect EBITDA margin to be lower by 80 bps YoY 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 ~18% YoY increase in advertisement growth on a base of (4.1)% YoY on account of demonetization in the base. Sun TV has changed its programming strategy. DTH revenue is set to grow by ~18% YoY in Q1FY19 (19.9% YoY in Q4FY18 and 10.1% in Q1FY18). We expect margins for Q1FY19 to be 830bps higher YoY on account of IPL revenue serving as an additional trigger and show of its IPL team. We expect content cost to go up due to continuous efforts to shift from ad slot to commissioned model in Tamil Nadu. We estimate EBITDA margin of 65.3% and a post MAC of 56.1%. 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; 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.

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Exhibit 1: Key Financials for quarter ending Jun 2018

(₹ mn)	Revenue	QoQ (%)	EBITDA	QoQ (%)	PAT	QoQ (%)
Z IN	17,593	2.0	5,391	6.5	3,189	150.1
SUNTV IN	9,825	37.0	6,414	22.8	3,638	25.6

Source: Trust



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