



INDIA

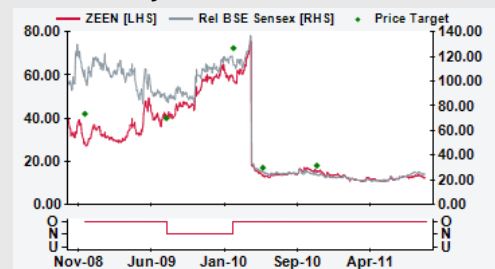
ZEEN IN Outperform
Price 28 Sep 11 Rs12.54

12-month target	Rs	17.00
Upside/Downside	%	35.6
Valuation	Rs	17.00
- DCF		
GICS sector		Media
Market cap	Rsm	3,007
30-day avg turnover	US\$m	0.2
Market cap	US\$m	61
Number shares on issue	m	239.8

Investment fundamentals

Year end 31 Mar		2011A	2012E	2013E	2014E
Revenue	m	2,768.5	2,969.8	3,250.5	3,510.6
EBITDA	m	424.0	450.7	553.2	666.5
EBITDA growth	%	-53.3	6.3	22.7	20.5
Adjusted profit	m	160.2	182.6	229.4	280.6
EPS adj	Rs	0.67	0.76	0.96	1.17
EPS adj growth	%	-65.4	14.0	25.6	22.3
PER adj	x	18.8	16.5	13.1	10.7
ROA	%	7.3	10.7	14.1	16.4
ROE	%	6.9	10.1	12.2	14.1
EV/EBITDA	x	6.2	5.8	4.8	3.9
Net debt/equity	%	-25.5	-20.6	-16.4	-18.3
P/BV	x	1.7	1.6	1.6	1.5

ZEEN IN rel BSE Sensex performance, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, September 2011
(all figures in INR unless noted)

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29 September 2011
Macquarie Capital Securities India (Pvt)
Ltd

Zee News

Tune in for growth, attractive valuation

Event

- We re-assess our estimates for Zee News following meetings with management and media ad sales consultants. We have scaled back our ad growth forecast but increased our near-term margin forecast. Maintain OP rating with 36% potential upside from current levels.

Impact

- **Tough operating environment.** Indian TV broadcasters have a gloomy ad outlook as a sports heavy calendar coupled with an economic slowdown has hurt ad growth prospects for other genres. We learnt from management that it would be difficult for ad sales for the news genre to grow by double digits. We are building in conservatism in our revenue forecasts and now estimate 7% ad growth in FY12 (vs 15% earlier).
- **ZEEN – strong positioning in news genre.** The flagship channel Zee News has consistently maintained its No. 4 position over the last year. Management sees no difficulty in this steady performance and believes that its power ratio (ie, ad rev share/viewership share) is better than its peers.
- **Subscription revenue growth on track.** The company gets 30% of its subscription income from DTH platform. Flagship channel Zee News is one of the two pay news channels in its category. This should help the company to deliver 8% YoY growth in both FY12 and FY13.
- **Near-term margin performance has room to surprise.** ZEEN reported 1Q FY12 margin of 12% as revenues slumped. We learnt from management that this was due largely to seasonality in the 1Q numbers. The same was not evident in the 1Q FY10 and 1Q FY11 numbers due to the ad boost from the elections. The company is confident of improved margin trajectory for the rest of the year (MacQ FY12 margins: 15%). We see upside risks to our margin forecasts if the performance of new channel launches is better than expected.

Earnings and target price revision

- We update our model for the 2011 annual report. We have reduced our YoY ad growth estimate to 5% / 10% from 15% /12% earlier for FY12 and FY13 resp. Our revised EPS is Rs0.76/Rs0.96 due to changes mentioned above. Our new target price is Rs17 (vs Rs18 earlier).

Price catalyst

- 12-month price target: Rs17.00 based on a DCF methodology.
- Catalyst: Revival in advertising revenue growth

Action and recommendation

- **Retain OP, +ve FCF, attractive valuations and robust business model.** We like ZEEN for its strong track record amongst news broadcasters. The company is FCF positive and we believe would not need fresh equity to fuel its growth plans. The stock is trading at 13x FY13E PER, undervaluing our estimated 25% earnings growth.

Analysis

Fig 1 New vs old estimates

(Amount in Rs m)	New Estimates			Old Estimates			Change (%)		
	FY12E	FY13E	FY14E	FY12E	FY13E	FY14E	FY12E	FY13E	FY14E
Revenues	2,970	3,251	3,511	3,170	3,518	na	-6.3%	-7.6%	Na
YoY Growth (%)	7.3	9.5	8.0	13.7	11.0	na			
Operating profit (EBIDTA)	451	553	667	450	636	na	0.1%	-13.0%	Na
EBITDA margin (%)	15.2	17.0	19.0	14.2	18.1	na			
Net Profit	183	229	286	179	269	na	2.2%	-14.7%	Na
Growth (%)	11.6	25.6	24.7	55.0	50.5	na			
Basic & Diluted EPS (Rs)	0.76	0.96	1.17	0.75	1.12	na	2.2%	-14.7%	Na

Source: Macquarie Research, September 2011

Zee News (ZEEN IN, Outperform, Target Price: Rs17.00)

Quarterly Results					Profit & Loss						
		1Q/12A	2Q/12E	3Q/12E	4Q/12E		2011A	2012E	2013E	2014E	
Revenue	m	742	742	742	742	Revenue	m	2,769	2,970	3,251	3,511
Gross Profit	m	584	584	584	584	Gross Profit	m	2,179	2,337	2,558	2,763
Cost of Goods Sold	m	158	158	158	158	Cost of Goods Sold	m	590	632	692	748
EBITDA	m	113	113	113	113	EBITDA	m	424	451	553	667
Depreciation	m	29	29	29	29	Depreciation	m	101	114	120	127
Amortisation of Goodwill	m	0	0	0	0	Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	0	0	0	0	Other Amortisation	m	0	0	0	0
EBIT	m	84	84	84	84	EBIT	m	323	337	433	539
Net Interest Income	m	0	0	0	0	Net Interest Income	m	-73	0	0	0
Associates	m	0	0	0	0	Associates	m	0	0	0	0
Exceptionals	m	0	0	0	0	Exceptionals	m	0	0	0	0
Forex Gains / Losses	m	0	0	0	0	Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	5	5	5	5	Other Pre-Tax Income	m	66	20	12	12
Pre-Tax Profit	m	89	89	89	89	Pre-Tax Profit	m	316	356	445	552
Tax Expense	m	-32	-32	-32	-32	Tax Expense	m	-112	-127	-159	-202
Net Profit	m	57	57	57	57	Net Profit	m	204	229	287	350
Minority Interests	m	-12	-12	-12	-12	Minority Interests	m	-44	-47	-57	-69
Reported Earnings	m	46	46	46	46	Reported Earnings	m	160	183	229	281
Adjusted Earnings	m	46	46	46	46	Adjusted Earnings	m	160	183	229	281
EPS (rep)		0.19	0.19	0.19	0.19	EPS (rep)		0.67	0.76	0.96	1.17
EPS (adj)		0.19	0.19	0.19	0.19	EPS (adj)		0.67	0.76	0.96	1.17
EPS Growth yoy (adj)	%	37.8	1,946.8	-26.1	-27.6	EPS Growth (adj)	%	-65.4	14.0	25.6	22.3
						PE (rep)	x	18.8	16.5	13.1	10.7
						PE (adj)	x	18.8	16.5	13.1	10.7
EBITDA Margin	%	15.2	15.2	15.2	15.2	Total DPS		0.40	0.44	0.48	0.53
EBIT Margin	%	11.3	11.3	11.3	11.3	Total Div Yield	%	3.2	3.5	3.9	4.2
Earnings Split	%	25.0	25.0	25.0	25.0	Weighted Average Shares	m	240	240	240	240
Revenue Growth	%	14.5	20.5	-0.3	-2.3	Period End Shares	m	240	240	240	240
EBIT Growth	%	55.1	81.6	-22.0	-26.7						
Profit and Loss Ratios					Cashflow Analysis						
		2011A	2012E	2013E	2014E		2011A	2012E	2013E	2014E	
Revenue Growth	%	-47.7	7.3	9.5	8.0	EBITDA	m	424	451	553	667
EBITDA Growth	%	-53.3	6.3	22.7	20.5	Tax Paid	m	212	142	178	221
EBIT Growth	%	-59.4	4.1	28.8	24.5	Chgs in Working Cap	m	-766	184	183	100
Gross Profit Margin	%	78.7	78.7	78.7	78.7	Net Interest Paid	m	-12	20	12	12
EBITDA Margin	%	15.3	15.2	17.0	19.0	Other	m	1,117	-673	-733	-654
EBIT Margin	%	11.7	11.3	13.3	15.4	Operating Cashflow	m	975	124	192	346
Net Profit Margin	%	7.4	7.7	8.8	10.0	Acquisitions	m	0	0	0	-10
Payout Ratio	%	59.9	57.8	50.6	45.5	Capex	m	-105	-99	-114	-132
EV/EBITDA	x	6.2	5.8	4.8	3.9	Asset Sales	m	0	0	0	10
EV/EBIT	x	8.1	7.8	6.1	4.9	Other	m	1,183	20	12	12
Balance Sheet Ratios						Investing Cashflow	m	1,078	-80	-103	-119
ROE	%	6.9	10.1	12.2	14.1	Dividend (Ordinary)	m	-1	0	0	0
ROA	%	7.3	10.7	14.1	16.4	Equity Raised	m	0	0	0	10
ROIC	%	6.2	16.4	19.1	21.2	Debt Movements	m	-1,166	-523	-523	-523
Net Debt/Equity	%	-25.5	-20.6	-16.4	-18.3	Other	m	-115	0	523	513
Interest Cover	x	4.4	nmf	nmf	nmf	Financing Cashflow	m	-1,282	-523	0	0
Price/Book	x	1.7	1.6	1.6	1.5	Net Chg in Cash/Debt	m	770	-479	90	226
Book Value per Share		7.4	7.7	8.1	8.6	Free Cashflow	m	870	25	78	214
						Balance Sheet		2011A	2012E	2013E	2014E
						Cash	m	976	378	316	378
						Receivables	m	892	1,048	1,192	1,287
						Inventories	m	4	4	4	5
						Investments	m	0	0	0	0
						Fixed Assets	m	917	898	909	929
						Intangibles	m	0	0	0	0
						Other Assets	m	539	650	756	816
						Total Assets	m	3,328	2,978	3,177	3,414
						Payables	m	809	887	950	1,002
						Short Term Debt	m	0	0	0	0
						Long Term Debt	m	523	0	0	0
						Provisions	m	71	71	30	11
						Other Liabilities	m	147	183	266	339
						Total Liabilities	m	1,550	1,141	1,246	1,352
						Shareholders' Funds	m	1,778	1,838	1,931	2,062
						Minority Interests	m	0	0	0	0
						Other	m	0	0	0	0
						Total S/H Equity	m	1,778	1,838	1,931	2,062
						Total Liab & S/H Funds	m	3,328	2,978	3,177	3,414

All figures in INR unless noted.

Source: Company data, Macquarie Research, September 2011

Important disclosures:

Recommendation definitions**Macquarie - Australia/New Zealand**

Outperform – return >3% in excess of benchmark return
 Neutral – return within 3% of benchmark return
 Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

Macquarie – Asia/Europe

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie First South - South Africa

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie - Canada

Outperform – return >5% in excess of benchmark return
 Neutral – return within 5% of benchmark return
 Underperform – return >5% below benchmark return

Macquarie - USA

Outperform (Buy) – return >5% in excess of Russell 3000 index return
 Neutral (Hold) – return within 5% of Russell 3000 index return
 Underperform (Sell) – return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high-highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low-medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.

* Applicable to Australian/NZ/Canada stocks only

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
 Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit / average total assets

ROE = adjusted net profit / average shareholders funds

Gross cashflow = adjusted net profit + depreciation

*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 30 June 2011

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	50.37%	64.60%	64.62%	45.63%	67.74%	48.02%	(for US coverage by MCUSA, 12.44% of stocks covered are investment banking clients)
Neutral	36.86%	21.22%	29.23%	51.30%	28.50%	38.42%	(for US coverage by MCUSA, 12.95% of stocks covered are investment banking clients)
Underperform	12.77%	14.18%	6.15%	3.07%	3.76%	13.56%	(for US coverage by MCUSA, 0.00% of stocks covered are investment banking clients)

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