# Macquarie **Equities Research**



### The Asia Specialist

INDIA		
ZEEN IN	Outpo	erform
Price 28 Sep 11	Rs	12.54
12-month target	Rs	17.00
Upside/Downside	%	35.6
Valuation - DCF	Rs	17.00
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	Х	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	Х	6.2	5.8	4.8	3.9
Net debt/equity	%	-25.5	-20.6	-16.4	-18.3
P/BV	Х	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.

Please refer to the important disclosures and analyst certification on inside back cover of this document, or on our website www.macquarie.com.au/disclosures.

Macquarie Research Zee News

### Analysis

Fig 1 New vs old estimates

	Nev	v Estimates		Old	Estimates		C	hange (%)	
(Amount in Rs m)	FY12E	FY13E	FY14E	FY12E	FY13E	FY14E	FY12E	FY13E	FY14E
Revenues YoY Growth (%)	2,970 7.3	3,251 9.5	3,511 8.0	3,170 13.7	3,518 11.0	na na	-6.3%	-7.6%	Na
Operating profit (EBIDTA) EBITDA margin (%)	451 15.2	553 17.0	667 19.0	450 14.2	636 18.1	na na	0.1%	-13.0%	Na
Net Profit Growth (%)	183 11.6	229 25.6	286 24.7	179 55.0	269 50.5	na na	2.2%	-14.7%	Na
Basic & Diluted EPS (Rs)	0.76	0.96	1.17	0.75	1.12	na	2.2%	-14.7%	Na
Source: Macquarie Research, Sep	tember 2011								

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Macquarie Research Zee News

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

Zee News (ZEEN IN, C	<b>Dutperfo</b> l	rm, Targe	et Price: I	Rs17.00)							
Quarterly Results	-	1Q/12A	2Q/12E	3Q/12E	4Q/12E	Profit & Loss		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 Other Amortisation	m	0	0	0 0	0	Amortisation of Goodwill Other Amortisation	m	0	0	0	0
EBIT	m <b>m</b>	<b>84</b>	<b>84</b>	<b>84</b>	<b>84</b>	EBIT	m <b>m</b>	<b>323</b>	337	<b>433</b>	<b>539</b>
Net Interest Income	m	0	0	0	0	Net Interest Income	m	-73	0	0	0
Associates	m	Ö	Ö	Ō	Ö	Associates	m	0	0	Ö	Ö
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 Minority Interests	<b>m</b> m	<b>57</b> -12	<b>57</b> -12	<b>57</b> -12	<b>57</b> -12	Net Profit Minority Interests	<b>m</b> m	<b>204</b> -44	<b>229</b> -47	<b>287</b> -57	<b>350</b> -69
Reported Earnings Adjusted Earnings	m m	46 46	46 46	46 46	46 46	Reported Earnings Adjusted Earnings	m m	160 160	183 183	229 229	281 281
_											
EPS (rep)		0.19	0.19	0.19	0.19	EPS (rep)		0.67	0.76	0.96	1.17
EPS (adj)	%	0.19 37.8	0.19 1,946.8	0.19 -26.1	0.19 -27.6	EPS (adj) EPS Growth (adj)	%	0.67 -65.4	0.76 14.0	0.96 25.6	1.17 22.3
EPS Growth yoy (adj)	/0	37.0	1,940.6	-20.1	-27.0	PE (rep)	70 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 Šplit	%	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		2011A	2012E	2013E	2014E	Cashflow Analysis		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 EBITDA Margin	% %	78.7 15.3	78.7 15.2	78.7 17.0	78.7 19.0	Net Interest Paid Other	m m	-12 1,117	20 -673	12 -733	12 -654
EBIT Margin	%	11.7	11.3	13.3	15.4	Operating Cashflow	m	975	124	1 <b>92</b>	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
						Investing Cashflow	m	1,078	-80	-103	-119
Balance Sheet Ratios	0/	0.0	40.4	40.0	444	Dividend (Ordinary)	m	-1	0	0	0
ROE ROA	% %	6.9 7.3	10.1 10.7	12.2 14.1	14.1	Equity Raised Debt Movements	m	1 166	0	0 -523	10 -523
ROIC	% %	7.3 6.2	16.4	19.1	16.4 21.2	Other	m m	-1,166 -115	-523 0	-523 523	-523 513
Net Debt/Equity	% %	-25.5	-20.6	-16.4	-18.3	Financing Cashflow	m	-1,282	-523	0	0
Interest Cover	/о Х	4.4	nmf	nmf	nmf	I mancing dustinow		-1,202	-525	·	·
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 Payables	<b>m</b> m	<b>3,328</b> 809	<b>2,978</b> 887	<b>3,177</b> 950	<b>3,414</b> 1,002
						Short Term Debt	m	009	007	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 Total Liab & S/H Funds	m m	1,778 3,328	1,838 2,978	1,931 3,177	2,062 3,414
All figures in IND colors and d						1		-,	_,,,,	-,	-,
All figures in INR unless noted. Source: Company data, Macqua	arie Researc	h, Septembei	r 2011								

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#### **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

#### 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

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

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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## Macquarie **Equities Research**



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#### Insurance

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George Chang (Japan)	(813) 3512 7854
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### Asia Sales

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Peter Slater (Boston)	(1 617) 598 2502
Jeffrey Shiu (China & Hong Kong)	(852) 3922 2061
Thomas Renz (Geneva)	(41) 22 818 7712
Andrew Mouat (India)	(9122) 6720 4100
Kenneth Yap (Indonesia)	(6221) 515 1555
JJ Kim (Korea)	(822) 3705 8799
Jason Lee (Malaysia)	(603) 2059 8888
Chris Gould (Malaysia)	(603) 2059 8888
Gino C Rojas (Philippines)	(632) 857 0861
Greg Norton-Kidd (New York)	(1 212) 231 2527
Luke Sullivan (New York)	(1 212) 231 2507
Eric Roles (New York)	(1 212) 231 2559
Sheila Schroeder (San Francisco)	(1 415) 762 5001

#### Regional Heads of Sales cont'd

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#### **Regional Head of Distribution**

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#### Sales Trading

- · · · · · · · · · · · · · · · · · · ·	
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Grace Lee (Korea)	(822) 3705 8601
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#### Sales Trading cont'd

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Depository Receipts - Seung-Jin Lee	(65) 6601 0203
Derivatives - Mark Holland	(852) 3922 2081
Structured Products - Andrew Terlich	(852) 3922 2013