

MEDIA AND ENTERTAINMENT

Newsprint expected to soften on weakening demand

December 5, 2008

Newsprint prices expected to soften in near future

Newsprint prices have risen steeply since the beginning CY08 on the back of reduction in newsprint production capacities in North America and Europe and reduction in exports from China. Print media-intensive events such as Olympics and US Presidential elections also led China and US to divert production towards domestic consumption rather than exports. With these events behind us and the current slowdown in most global economies, we expect demand for newsprint to dip significantly, which will also bring down newsprint prices.

Print media companies to benefit significantly; depreciating INR is the worry

Print media companies have been facing strong raw material cost inflation due to rising newsprint prices. After depletion of old inventory, all players have faced margin erosion. The ensuing fall in newsprint prices will boost these companies' margins. However, since the USD has appreciated against the INR, and in case it stays at current levels or moves up, it could neutralise the gains from falling newsprint prices. For a 20% decline in newsprint prices, *ceteris paribus*, EBITDA margins of leading print companies can improve 300–700bps.

Strong correlation with crude and weak freight rates support our view

An analysis of Canadian newsprint and crude price movements between June 2001 and Nov 2008 reveals a correlation coefficient of 0.81 between the two commodities' prices. Crude is used during production of newsprint and has a direct bearing on freight rates as well. Some mills also use coal as source of energy, and even coal prices are down ~50% from their peak in July '08. Baltic freight index also shows a massive decline from its peak in May '08. Since commodity prices have corrected significantly, we expect newsprint prices to follow suit.

Dip in prices of old newspaper (ONP) to benefit regional/vernacular press

ONP is a key input for regional/vernacular newspaper publishers. As per industry sources, its price has corrected significantly. Since ONP is also used as a packaging material by other industries such as consumer durables and beverages, an overall slowdown in global demand for ONP is a key reason behind its price correction. Jagran Prakashan and HT Media, having a strong presence in the regional market, are expected to benefit strongly from this.

Outlook: Full impact from Q1FY10; Jagran and Deccan to benefit most

November data shows a downtrend only in domestic newsprint prices and not in international newsprint prices. HT Media and Deccan Chronicle use a high proportion of imported newsprint, approximately 75% and 95%, respectively, and are unlikely to benefit immediately. Our interaction with print companies and industry sources lead us to believe that international newsprint prices in the spot market have fallen below contract prices, which is a precursor to contract price correction. Full benefit of a price correction is only likely to kick-in from Q1FY10 onwards, once players utilise their current inventory. Jagran Prakashan is the only player using a relatively higher proportion of domestic newsprint and hence, is expected to benefit immediately. Deccan Chronicle would also benefit significantly over the long term due to use of high proportion of imported newsprint.

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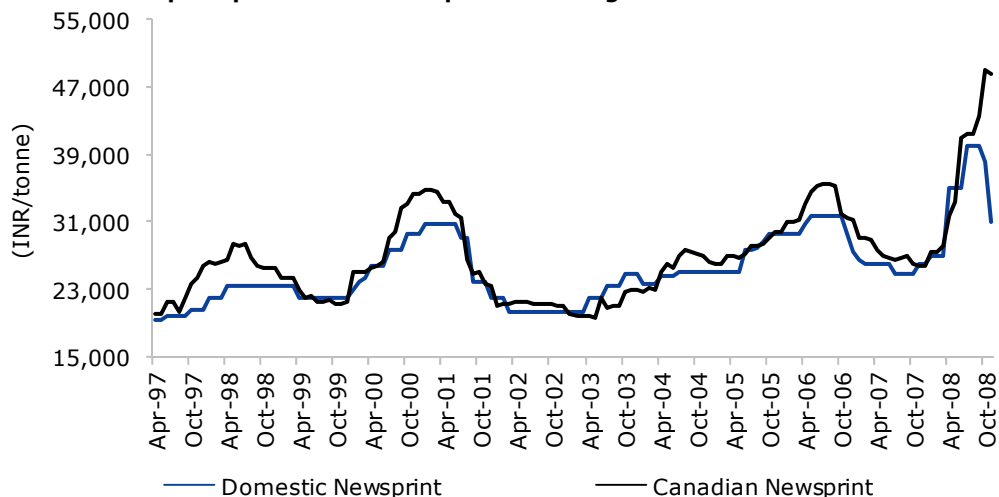
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Newsprint prices expected to soften in near future

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Chart 1: Newsprint prices—Domestic prices heading South



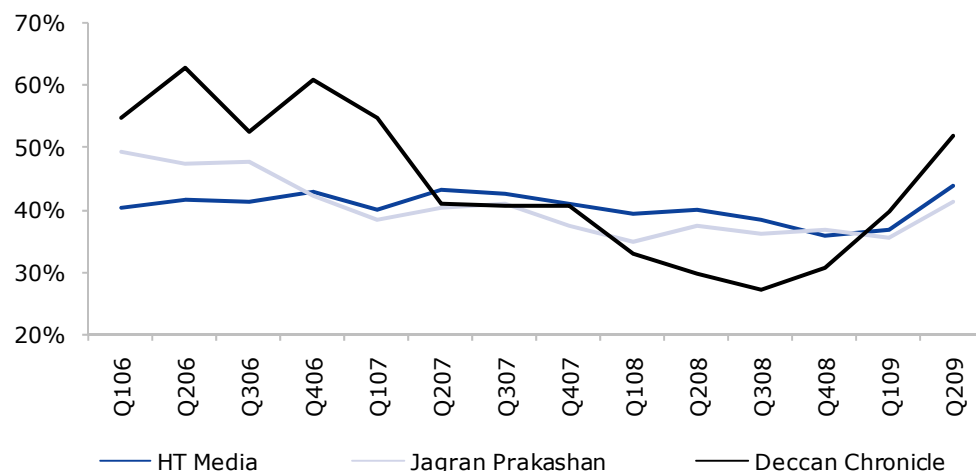
Source: CRISIL Research, Edelweiss research

Note: Domestic prices are ex-factory and international prices are Canadian newsprint at landed cost

Print media companies to benefit significantly; depreciating INR is the worry

Print media companies have been facing strong raw material cost inflation due to rising newsprint prices. After depletion of old inventory, all players have faced margin erosion. The ensuing fall in newsprint prices will boost these companies' margins. A weak economic environment has also forced advertisers to cut their marketing spends, thereby reducing revenue growth for most media companies. Any relief from the raw materials front is expected to be regarded positively by the market. However, since the USD has appreciated against the INR, and in case it stays at current levels or moves up, it could neutralise the gains from falling newsprint prices. For a 20% decline in newsprint prices, *ceteris paribus*, EBITDA margins of leading print companies can improve 300–700bps.

Chart 2: Raw material/sales ratio

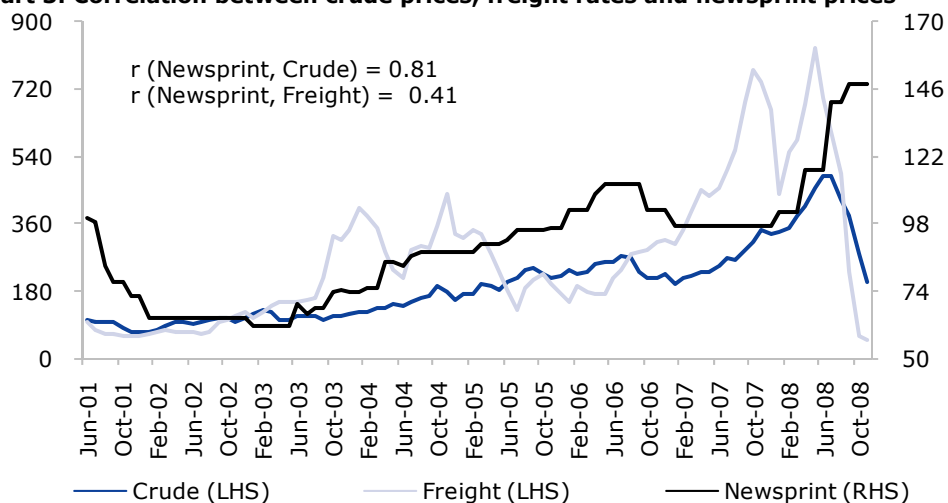


Source: Company, Edelweiss research

Strong correlation with crude and weak freight rates support our view

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Chart 3: Correlation between crude prices, freight rates and newsprint prices



Source: Bloomberg, CRISIL Research, Edelweiss research

Dip in prices of old newspaper (ONP) to benefit regional/vernacular press

ONP is a key input for regional/vernacular newspaper publishers. Its price has corrected significantly to USD 125-130 per tonne compared with USD 275-280 per tonne a few months ago (Source: Industry). Since ONP is also used as a packaging material by other industries such as consumer durables and beverages, an overall slowdown in global demand for ONP is a key reason behind its price correction. Jagran Prakashan and HT Media, having a strong presence in the regional market, are expected to benefit strongly from this.

Outlook: Full impact from Q1FY10; Jagran to benefit immediately and Deccan later

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Coverage group(s) of stocks by primary analyst(s): Media:

Inox Leisure, PVR, Fame India, Television Eighteen India, TV Today Network, Zee Entertainment Enterprise, Zee News

Recent Research

Date	Company	Title	Price (INR)	Recos
24-Nov-08	Media Times	Fortnightly update on Indian media and entertainment industry		
10-Nov-08	Media & Entertainment	Play safe amid uncertainties; <i>Sector Update</i>		
10-Nov-08	Media Times	Fortnightly update on Indian media and entertainment industry		
03-Nov-08	Fame India	Occupancy and other expenses remain a concern; <i>Result Update</i>	18	Reduce

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Accumulate	Reduce	Sell	Total
Rating Distribution*	89	57	30	8	187

* 2 stocks under review / 1 rating withheld

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	67	48	72

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 20% over a 12-month period
Accumulate	appreciate up to 20% over a 12-month period
Reduce	depreciate up to 10% over a 12-month period
Sell	depreciate more than 10% over a 12-month period

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