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Every week, the ICICIdirect research team selects a stock based on fundamental and/or technical parameters, which is likely to give a return of 20% or more over a 3-6 month perspective.

## Network 18 Fincap Ltd(NETW18)

Current Price: Rs 500

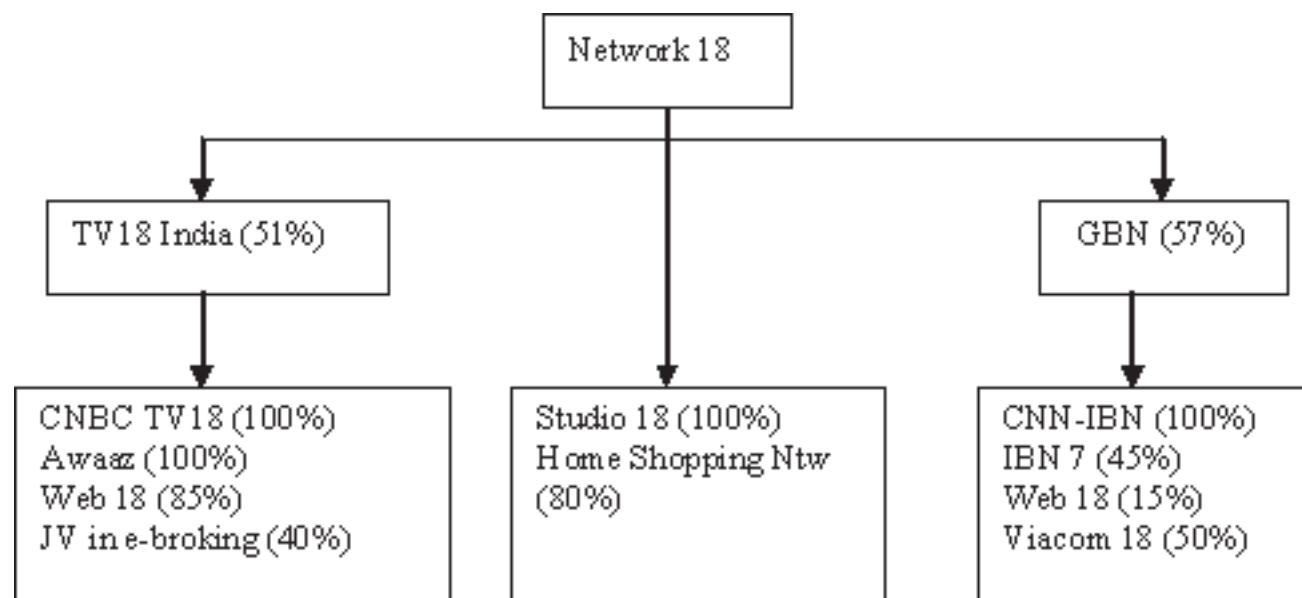
Target Price: Rs 600

Potential upside: 20%

Time Frame: 6 mths

### Company Background

Network 18 is the holding company of the TV18 Group and has become one of the strongest media houses in the country. The company owns some of the best media properties such as CNBC TV18, CNN IBN, Awaaz, Internet portals under Web18, film production business under Studio 18, a recent joint venture with Viacom and home shopping business.



### Investment Rationale

#### Major player in business news space

TV18 dominates the TV business news broadcasting space through its channels CNBC TV18 and Awaaz. The company has recently acquired newswire service of Crisil Marketwire, giving synergies to the business segment. Its Internet portals such as moneycontrol.com, poweryourtrade.com, easymf.com etc and its 40% stake in an e-broking JV with Ambit Capital gives scalability to the business model. We see a robust advertising growth due to the dominant position and with more than 60% of the advertising revenues coming from the English news channel while the rest from the Hindi channel. However we believe the biggest trigger will come from the pay revenues with penetration of CAS and DTH across India.

#### Global Broadcasting News gaining market share

To leverage the company's expertise in the news space along with the distribution and editorial strength and capture the English news space, the company launched an English news channel CNN-IBN in alliance with the CNN. In less than 15 months, the channel has garnered more than 35% market share and is giving NDTV 24x7 a tough time. The company has also acquired 45% stake in IBN7, a Hindi news channel and plans to enter the regional news space in near future. We believe the advertising market in the general news space is growing at a brisk pace and will benefit GBN in the long run.

## Web 18 to unlock value

All Internet properties of TV 18 group reside in Web18, where 85% stake is held by TV18 India while the rest in GBN. The company has number of business portals such as moneycontrol.com, easymf.com, poweryourtrade.com, commoditiescontrol.com etc. These properties have synergies with the news channel, which brings eyeballs to the portals. Over last two years the company has acquired lots of website in the travel, recruitment, news, cricket, technology, e-ticketing etc. We believe the management will unlock value in this space in near future as currently these portals have revenue only from advertising front while subscription revenues while company is trying to increase subscription revenues.

## Home Shopping Network to give diversification

The company has launched Shop18, an integrated home shopping network in partnership with SAIF partners, Asia's largest PE player. This business would be an integrated model with television, internet and catalogue sales platform along with backend logistics management. With home shopping globally accounts to around 2-3% of the total retail market we see a great potential in scalability of this business in India as organized retail just comprises of 45 in India today.

## JV with Viacom to hold Studio18

To widen the broadcasting bouquet the company has recently entered into a JV with Viacom having channels such as VH1, MTV and Nickelodeon in India. This JV will launch many more general entertainment channels and will house the company's film entertainment and distribution business Studio 18. Studio 18 has already been associated with movies such as *Halla Bol*, *Bhootnath*, *Namastey London*, *Honeymoon Travels Pvt Ltd*, *1971*, etc. The JV will also house the Indian film company which will raise \$100 million through an Alternative Investments Market (AIM) listing on the London Stock Exchange and will be involved in funding various entertainment products in India. With backing and international expertise of Viacom we believe this JV will give Studio18 global presence.

## Financials

The company got listed in February 2007 after the restructuring of the group. In Q4FY07 the company posted a top line of Rs 121.96 crore and a bottom line of Rs 9.3 crore. The company has an operating margin of 30.7%.

## Valuations

A substantial part of Network 18 value comes from its two subsidiaries TV18 India and GBN while the rest from its two businesses of home shopping and film production and distribution. Based on the valuation of its two subsidiaries and valuing its operational business at Rs 200 crore, we value Network18 at Rs 600 per share. We rate the stock an outperformer with an upside potential of 20% from the current price of Rs 500 in next 3-6 months.

(Rs crore)	Stake	Value	Residual Value
TV18 India	51%	4800	2448
Global Broadcasting News	56.90%	2376	1352
Studio18 & HSN		200	200
EV			<b>4000</b>
Holding Company discount	10%		3600
No. of shares (Fully Diluted)			6
Value per share (Rs)			600

## Technical Outlook

The stock has remained ranged between Rs 120-150 near its low since May 2006. It appears to have broken out of its 7-8 month consolidation phase. The short-term exponential averages (20 and 50-day) have also created a crossover, which show signs of momentum accompanied by strong volumes. Though the RSI appears to be a little overbought, it has managed to cross the 200-day EMA, which is good for the stock.



### ICICIdirect Research Desk

ICICI Securities Limited,  
2nd Floor, Stanrose House,  
Appasaheb Marathe Road,  
Prabhadevi, Mumbai - 400 025  
research@icicidirect.com

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