

# Zee Telefilms

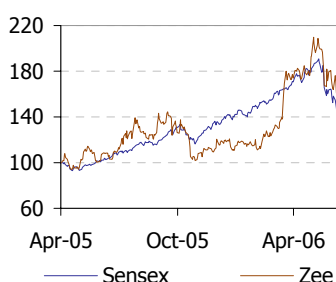
Relative to sector: **Outperformer**

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## Relative Performance



Source: Bloomberg, ENAM Research

## Stock data

No. of shares	: 414mn
Market cap	: Rs.89bn
52 week high/low	: Rs.306/ Rs.139
Avg. daily vol. (6mth)	: 2.9mn shares
Bloomberg code	: Z IN
Reuters code	: ZEE.BO

## Shareholding (%) Mar-06 QoQ chg

Promoters	: 46.2	(0.2)
FIIs	: 31.5	0.7
MFs / UTI	: 9.3	2.4
Banks / FIs	: 7.8	(1.1)
Others	: 5.2	(1.8)

## ENTERTAINING TIMES AHEAD

Zee Telefilms (Zee) is set for a resurgence led by changes in management strategy. The rising competitive intensity has forced Zee to increase its programming and marketing spend on its marquee channel. The results of this increased spending are already evident with **Zee TV, the flagship channel, moving to the No. 2 position in the general entertainment space**. We expect that this improvement in ratings will soon reflect in revenue growth. With most of the investments in programming already done, we expect earnings growth to be even faster. Additionally **post re-structuring**; we believe that the company will benefit from the increased management focus on respective businesses.

## Structural Change on the Distribution Side

Zee's DTH continues to generate good response, with 3,000 subscribers being added every day, taking the total to over 1 mn. The entry of Tata Sky will lead to structural changes in the distribution side of the media business ultimately leading to pay revenues. We believe that with its strong subscriber base Zee is best positioned to capitalize on the ensuing opportunity.

## Increasing estimates & Upgrading Rating

Though the losses from the new channels are expected to continue for the next 6-8 months, we believe Zee's investments in new channels are imperative to sustain and grow its franchise and expect them to bear fruit over the next 6-8 months. **Based on expected increase in Ad revenues, estimates have been increased for FY07E and 08E by 9% and 7% to Rs 7 and Rs.8.9 respectively. The stock currently trades at 31x FY07E EPS of Rs. 7 and 24x FY08E of Rs.8.9.** While the stock may seem expensive at these valuations, our sum of parts value, post restructuring, is Rs. 245/ share. We believe the stock is currently undervalued and upgrade the stock to a sector **Outperformer** rating while maintaining our price target of **Rs.245**.

## Financial summary

Y/E Mar	Sales (Rs.mn)	PAT (Rs. mn)	Consensus EPS* (Rs.)	EPS (Rs.)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBIDTA (x)	DPS (Rs.)
2005	12,981	3,175	-	7.3	13.0	29.5	12.9	10.7	22.1	1.0
2006	14,233	2,173	-	5.0	(31.6)	43.1	7.8	6.7	35.7	1.2
2007E	19,175	3,040	7.3	7.0	39.9	30.8	10.0	8.6	23.0	1.3
2008E	22,447	3,891	9.3	8.9	28.0	24.1	11.5	9.9	18.3	1.3

Source: \*Consensus broker estimates, Company, ENAM estimates

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