ICICI direct Research

Sector Update

ICICI Securities – Retail Equity Research

April 13, 2020

Bracing for washout FY21 but FY22 may be bumper

Broadcasters are likely to witness a steep impact on revenues and earnings on account of economic standstill during the lockout. The major segment to be hit will be advertisement given the respective client business challenges and further aggravated no fresh GEC content inventory due to lockout. Subscription revenues, however, will be stable, albeit growth momentum will taper on a high base. Consequently, we anticipate a washout FY21 for broadcasters. However, an economic recovery thereafter in FY22 coupled with strong balance sheets of broadcasters drives our confidence and post sharp stock prices correction, we now turn constructive on the segment.

Ad revenues to be hit hard by Covid-19 in FY21

Advertisement revenues of broadcasters have been under pressure in FY20 on account of macroeconomic challenges. Going into FY21, the Covid-19 impact is expected to result in a washout April, 2020 followed by a slow recovery and normalisation only by H2FY21 led by a benign base and gradual recovery in economy. April revenue hit will also be on account of a steep loss of market share of most GECs to Doordarshan that is now thriving on earlier year hits replay. For CY20, a *Ficci EY* report had pegged the broadcasting ad growth at meagre ~5%. We note that ad growth for CY20 for Zee, Sun and TV Today was 11%,-2.7% and 6.8%, respectively. We expect FY21 ad revenues for broadcasting at -5%. For FY21, we bake in ad growth for Zee, Sun and TV Today at -4%,-4.2% and 0.1%, respectively. However, the bump in ad revenues in FY22 will be at 20%, 18% and 15%, respectively, for Zee, Sun and TV Today, respectively.

Subscription better off under the circumstances

The monetisation of NTO-1, led to strong subscription revenue growth for broadcasters in FY20YTD. Zee reported a staggering 30.3% domestic subscription growth in M9FY20 while for Sun TV it was 16.3%. While the NTO-2 implementation is likely to be shaved off given the condition of maximum priced channels to be included in bouquet as well as limitations on discounting, it is currently being pursued legally. We expect the subscription revenue trajectory to be stable, albeit lower on high base, notwithstanding Covid-19 scare. We bake in domestic subscription growth of 5% and 10% for FY21 and FY22, respectively, for Zee. For Sun TV, we build in 4% and 10% subscription growth for FY21 and FY22, respectively.

Valuation & Outlook

One of the key advantages of broadcasters has been stronger balance sheets, which is a paramount factor under current situation. The stock prices have also corrected sharply across the board. We now upgrade Sun TV to **BUY**, valuing it at 10x FY22 EPS at ₹ 410/share. We also maintain **BUY** rating on TV Today with a revised target price of ₹ 250/share (8x FY22 EPS). We downgrade Zee to **HOLD** with a revised target price of ₹ 150/share (8x FY22 EPS). Lower multiple and downgrade for Zee is on account of continued pressure on receivables, related party dues and now decision of investment of ₹ 522 crore over time in its subsidiary, Margo Networks (SugarBox) on which we still await clarity. Negative news flows on promoter group also remain an overhang.

Rating Matrix

	Rating	
	Old	New
Zee Entertainment	Buy	Hold
Sun TV	Hold	Buy
TV Today	Buy	Buy

Target price (₹)

	CMP	Target price		Upside
		Old	New	
Zee Entertainment	134	345	150	12%
Sun TV	345	510	410	19%
TV Today	203	300	250	23%

Research Analyst

Bhupendra Tiwary, CFA
bhupendra.tiwary@icicisecurities.com

Amogh Deshpande
amogh.deshpande@icicisecurities.com

Company wise impact

Zee Entertainment

We now bake in ~14% and ~19% cut in EBITDA and PAT estimates, respectively, for FY21 with a steep cut in ad revenues and margins on account of Covid-19. For FY21, we bake in ad decline of 4% vs. 12% growth earlier. However, the bump in ad revenues in FY22 is expected to be at 20% vs. 10% earlier. We lower the FY21 margins estimate to 27.8% in FY21 vs. 30%, earlier. **We downgrade Zee to HOLD with a revised target price of ₹ 150/share (8x FY22 EPS).** Lower multiple and downgrade is on account of continued pressure on receivables, related party dues and now decision of investments of ₹ 522 crore over time in its subsidiary, Margo Networks (SugarBox) on which we still await clarity. Negative news flows on promoter group also remain an overhang.

Exhibit 1: Change in estimates

	FY20E			FY21E			FY22E		
(₹ Crore)	Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenue	8,272.7	7,950.9	-3.9	8,929.6	7,710.6	-13.7	9,768.8	8,997.2	-7.9
EBITDA	2,502.7	2,343.8	-6.4	2,678.9	2,146.8	-19.9	2,979.5	2,651.9	-11.0
EBITDA Margin (%)	30.3	29.5	-77 bps	30.0	27.8	-216 bps	30.5	29.5	-103 bps
PAT	1,635.3	1,525.0	-6.7	1,841.6	1,446.4	-21.5	2,145.3	1,817.1	-15.3
EPS (₹)	17.0	15.9	-6.7	19.2	15.1	-21.5	22.3	18.9	-15.3

Source: Company, ICICI Direct Research

Sun TV

We now bake in ~12.5% and ~16.5% cut in EBITDA and PAT estimates, respectively, for FY21 with a steep cut in ad revenues and margins on account of Covid-19. For FY21, we bake in ad decline of 4.2% vs. 6% growth earlier. However, the bump in ad revenues in FY22 is expected to be 18% vs. 10% earlier. We lower the FY21 margins estimate to 61.1% in FY21 vs. 63.5%, earlier. **We now upgrade Sun TV from HOLD to BUY, valuing it at 10x FY22 EPS at ₹ 410/share.**

Exhibit 2: Change in estimates

	FY20E			FY21E			FY22E		
(₹ Crore)	Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenue	3,584.2	3,506.4	-2.2	4,028.8	3,526.3	-12.5	4,372.4	4,058.1	-7.2
EBITDA	2,288.4	2,226.6	-2.7	2,556.6	2,155.2	-15.7	2,804.3	2,565.2	-8.5
EBITDA Margin (%)	63.8	63.5	-34 bps	63.5	61.1	-234 bps	64.1	63.2	-92 bps
PAT	1,477.9	1,437.3	-2.8	1,635.0	1,365.7	-16.5	1,781.4	1,621.5	-9.0
EPS (₹)	37.5	36.5	-2.7	41.5	34.7	-16.5	45.2	41.1	-9.0

Source: Company, ICICI Direct Research

TV Today

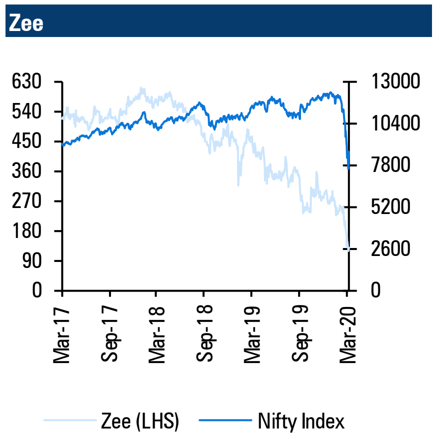
Given the Covid-19 impact, we cut the EBITDA estimates for FY21E by ~17.9%. The subsequent impact on earnings would be ~18.5% For FY21. We bake in muted ad growth of 0.1% vs. 10% growth earlier. However, the bump in ad revenues in FY22 is expected to be 15%. **We maintain BUY rating on TV Today with a revised target price of ₹ 250/share (8x FY22 EPS).**

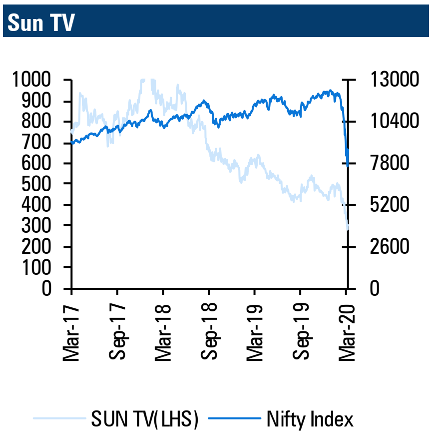
Exhibit 3: Change in estimates

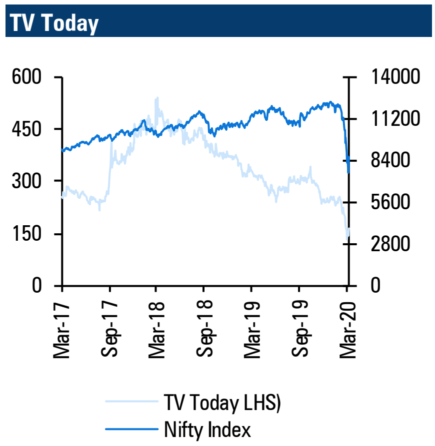
	FY20E			FY21E			FY22E
(₹ Crore)	Old	New	% Change	Old	New	% Change	Introduced
Revenue	832.9	822.2	-1.3	910.1	823.6	-9.5	939.3
EBITDA	214.5	208.3	-2.9	252.6	207.3	-17.9	254.8
EBITDA Margin (%)	29.1	25.3	-377 bps	30.9	25.2	-573 bps	27.1
PAT	138.9	135.2	-2.7	179.2	146.1	-18.5	185.2
EPS (₹)	23.3	22.7	-2.7	30.1	24.5	-18.5	31.0

Source: Company, ICICI Direct Research

Price Charts







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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

Pankaj Pandey | Head – Research | pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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