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Every week ICICIdirect research team will select a stock based on fundamental and/or technical parameter, which is likely to return 20% over a 3-6 month perspective.

Zee News Ltd. (ZEENEW)

Current Price: 42.20

Target Price: 50.70

Potential upside: 20%

Time Frame: 3-6 mths

Company Background

Zee News Ltd (ZNL) demerged from Zee Telefilms Ltd on March 31 2006 and became a listed entity on January 10 2007.

Zee News reaches millions of Indians through a clutch of news and regional entertainment channels. The specific channels operated by Zee News Ltd are Zee News, Zee Business, Zee Marathi, Zee Bangla, Zee Punjabi, Zee Gujarati, Zee Telugu, Zee Kannada and Zee 24 Taas and 24 Ghanta. Zee News Limited also supplies content to the international broadcasting business of Zee in the US, Europe, Africa, Middle East and Asia Pacific.

Investment rationale

Foray into new territories

While ZNL has maintained its dominance in its existing properties in the regional broadcasting space, it continues to add new properties to its portfolio. With Zee Telugu and Zee Kannada having a strong presence in the south Indian regional entertainment market, ZNL is slated to enter the Tamil and Malayalam GEC space as well. The company would also be launching the Zee Telugu news channel in the second quarter this fiscal. ZNL has lined up Rs 200 crore of investment for new launches over the next couple of years. With its entry into newer territories the company would further scale up its target audience resulting in a higher subscription and advertisement revenue.

Increasing market share

Zee News' market share has improved across properties. The company continues to dominate the Marathi and Bengali market, while gaining market share in the Gujarati, Kannada and Telugu market. ZNL has a market share of 55% and 45% in Marathi and Bangla genres, respectively. Zee Gujarati and Zee Kannada have also witnessed a rapid growth in market share rising from 27% and 9.5% in Q4FY08 to 35% and 16% in Q1FY09, respectively. The market share of 24 hours Marathi and Bengali news channels 24 Taas and 24 Ghanta stood at 33% and 36%, respectively.

Risks & concerns

ZNL is investing aggressively in the Tamil market. With the launch of the Telugu news channel the cumulative losses from these two channels are expected to be to the tune of Rs 50 crore in FY09. With more channels slated to be launched in the next couple of years, the company could witness a downward pressure on margins.

Financials

ZNL reported a topline of Rs 367.5 crore and PAT of Rs 37.1 crore for FY08. For Q1FY09, revenues (Rs 112.7 crore) grew 48% Y-o-Y on the back of 39% growth in existing channels and 165% growth in new channels. PAT for Q1FY09 stood at Rs 9.3 crore, growing 60% Y-o-Y.

Key Financial Ratios

year	2008/06	2007/06	var %	2008/03	2007/03	var %
Sales Income	109.59	74.46	47.18	357.82	235.56	51.9
Other Income	0.3	0.05	494	1.08	12.8	-91.56
Expenditure	92.1	62.55	47.24	286.96	221.59	29.5
Interest	0.32	0.17	87.06	0.58	5.06	-88.54
Gross Profit	17.46	11.79	48.09	71.36	21.71	228.7
Depreciation	1.93	1.63	18.65	6.91	4.62	49.57
Tax	5.98	3.78	58.12	24.2	6.5	272.31
PAT	9.55	6.38	49.67	40.25	10.59	280.08
Equity	23.98	23.98	-0.02	23.98	23.98	0
OPM (%)	15.96	16	-0.04	19.8	5.93	13.87
GPM (%)	15.67	15.77	-0.1	19.64	3.78	15.86
NPM (%)	8.71	8.56	0.15	11.24	4.49	6.75

Valuations

ZNL is in dominant positions in a majority of its regional GECs. The company fares better than its key comparable channels in the broadcasting space, IBN7 and NDTV India. At the current market price of Rs 42.2, the stock is trading at 17.58x FY09E EPS of Rs 2.4 and 12.78x FY10E EPS of Rs 3.3. At the recommended price of Rs 50.7, the stock discounts the FY10E EPS by 15.36x. We recommend the stock with a target price of Rs 50.7 over a six-month time frame.



Technical Outlook

The stock has bounced back from the level of 38.50 with high volumes indicating bullishness. This also suggests that the uptrend is building.

However, during January and May 2008, prices came under pressure due to profit booking. This was in line with the market, as a whole. However, at present levels, the stock is consolidating before the up move. Among oscillators, the RSI is rising from the oversold territory and is currently at 45 showing strength. The stock has recently moved above the 20 days simple moving average, which is a bullish indication. The immediate support comes around 38.50 levels. One can expect a target around 51.45 in the coming months, which is the 50% retracement level of the recent fall from 64.5 to 38.5.

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