kotak Securities

Pick of the week

7th Sep'20

Zee Entertainment Enterprises Ltd

Recommendation	Time Period
Add	12 Months

Current Price	Target Price	Potential Upside
₹219	₹250	14.16%

Investment Argument

- We believe that the worst may be over in terms of Balance Sheet (BS) and operational concerns and expect the stock to gradually re-rate from current levels (12X PE) as the management delivers on governance and FCF promise.

- We expect Zee's BS and operational performance to improve going forward led by reduction in Working Capital (W-cap) (flat or lower inventories/advances/receivables) and modest capex in FY21 driving healthy FCF conversion, and (2) gradual recovery in advertising demand as Covid impact tapers.

- Improved disclosures, introduction of policies pertaining to treasury management and investment and ongoing board reconstitution is rebuilding Zee's investor confidence. Key risk to our call is any deviation from guidance (especially on governance and Balance Sheet front).

- We expect ZEE earnings to grow by 2.9% in FY21 and 50.8% in FY22. Zee has guided PAT to Free Cash Flow (FCF) conversion of 50%+ in FY22 but refrained from providing similar guidance for FY21 until 2Q, in view of the uncertain environment. As per our estimates the company is expected to generate FCF of Rs.2,907 cr in the next three years.

- The stock can re-rate further if (1) Zee cancels capital intensive Sugarbox project, and (2) on material improvement in operating and financial metrics on ZEE5. We upgrade the stock to ADD, with a fair value of Rs250, valuing at 14X Sep-22E earnings. In our view, success in OTT is imperative for re-rating beyond 14-15X PE.