



In continuation of our “Braveheart Series”, we present the media giant, Zee Entertainment Ltd (ZEE). According to our estimates, ZEE offers ~80% upside over a two-year timeframe (TP: INR244). A company backed by solid free cash flow, net cash of ~INR10bn, minimal debt backed by a secular growth story, two buy-back offers in past few quarters and a stable dividend policy merit ZEE an undeniable place among the best stocks to own in the defensive space. Its major upside comes from the digitization of cable network in the country. Irrespective of the winner among DTH or cable operators, ZEE will be the safest and most attractive stock to play the digitisation theme. Our analysis indicates an NPV/share of ~INR73 from mandatory digitisation in spite of considering delays even though most of the stakeholders are serious on digitisation this time around. Given the limited scope for new entrants and a likely surge of 600bps in ROE post digitisation, we expect ZEE to re-rate. All negatives like slowdown in ad revenues, sports losses and delay in digitisation seem to be priced in.

To recap, our product “Braveheart” has been designed to select compelling bottom up ideas to help investors navigate through the arduous investment climate. We have stretched our analysis beyond conventional methodologies to identify not only top buy ideas (deep value stocks with strong franchises) but also top sell ideas (stocks where a persistently inclement business environment will result in significant value erosion over the medium term). Some of the important metrics used to identify these stocks include:

1. Stable corporate governance
2. Stable business and margins outlook
3. Improving cash flows
4. Attractive valuations

However, the selection framework is differentiated and not clouded by valuations alone. It also encompasses multiple inputs which consist of the operating macro environment as well as business and stock level variables. In order to strengthen it further, we have incorporated our learning from previous business cycles as well.

We believe that you will find much value in this product. As always, your feedback will be much appreciated as it would help us refine our endeavour.

Regards

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