

CTC Media

4 May 2010

Still a good play

Media		Current price	US\$ 17.14 *	Buy
Russia		Fair value	US\$ 19.50	Rating maintained
Performance over	1M	3M	12M	
Absolute %	-1%	18%	93%	
Rel. MSCI %	3%	16%	24%	
12m Hi/Lo	US\$ 19.72 / 8.71			
Reuters	CTCM.O			
Bloomberg	CTCM US			
Market cap € m	2,014m			
Next corporate event	2Q10 results on 3 August 2010			
RUB / US\$	29.32			
	FY/e 31.12., (US\$ m)	2009A	2010F	2011F
	Sales	506.1	591.5	724.5
	EBITDA	182.7	219.2	281.7
	EBIT	152.5	205.2	265.4
	Net profit	100.4	155.0	200.4
	EPS (US\$)	0.7	1.0	1.3
	P/E (x)	26.2	17.1	13.2
	DPS (US\$)	0.00	0.26	0.80
	Yield (%)	0.0%	1.5%	4.7%
	EV/EBITDA (x)	14.5	11.8	9.0

Source: CTC Media, KBC Securities estimates

To reflect stronger-than-anticipated 1Q10 results and bullish statements from Russia's leading media house regarding domestic TV advertising spending, we have raised our expectation for CTC Media's EBITDA by 6% to US\$ 219.2m (up 20% y/y) for 2010. However, taking into account less favourable growth dynamics and exchange rate assumptions, our EBITDA forecast remains broadly unchanged at US\$ 281.7m (up 28% y/y) for 2011 and has been lowered by 2% to US\$ 350.4m (up 24% y/y) for 2012. Overall our fair value estimate has remained unchanged at US\$ 19.50 per share, which still implies 14% upside. We maintain our Buy rating on CTC Media.

*Priced at COB 03/05/10

Buy rating maintained

- **Russia's TV ad spending to increase in 2010:** We have raised our expectations for Russia's TV ad market and expect a 7% y/y rebound in 2010. The upward revision follows recent bullish statements from Video International, which now expects TV ad spending in Russia to rise 5% y/y in 1H10 and 10-15% in 2H10. After the 4% y/y increase in ad revenues recorded in 1Q10, we expect CTC's ad revenues to increase approximately 10% y/y in local currency terms in the remainder of the year.
- **Business model under new ad law still unknown:** New ad law regulations will stop CTC from cooperating with Video International (VI) after 2010, thus CTC is considering several different scenarios for selling its ad airtime, including direct sales via an internal sales team. We continue to believe that lower commissions paid to media houses could offset the potential decrease in pricing power after 2010.
- **No impact from potential change in VI ownership:** The press speculates that VI is about to be acquired by Bank Rossiya, the co-owner of CTC's smaller competitors Ren TV and Channel 5. Despite the evident clash of interests between CTC and Bank Rossiya, we would expect the potential change in ownership at VI to have a neutral impact on CTC's operations. The majority of air time has already been contracted for this year, thus VI's new ownership would only affect CTC's pricing power after 2010, when cooperation with VI will be either limited or stopped completely due to new legal regulations.
- **Strategy for small channels impacts profitability:** Investments in high quality content and the marketing of the Domashny and DTV channels is likely to weigh on CTC's profitability in 2010 and 2011. Expenses were up in 1Q10, when the EBITDA margin fell 5bp y/y. Investments are expected to peak in 2Q10. Adjusted for one-offs, the group's EBITDA margin looks set to contract 4bp to 37.1% in 2010 and remain below 40% by 2012.
- **Undervalued:** The stock has lost 13% in the last week, underperforming TVN and CME by 9% and 5% respectively. On a 2012F EV/EBITDA of 7.1x, CTC trades at a discount of 14% to TVN and 7% to CME, which we see as unjustified.

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The definitions of terms applied in the publication:

EBITDA = EBIT + amortization and depreciation

EPS = Net profit / No. of shares outstanding

DPS = Dividend per Share

NBV per share = Net Book Value / No. of shares outstanding

EBITDA margin = EBITDA / Revenue

EBIT margin = EBIT / Revenue

CFPS = Cash flow / No. of shares outstanding

Net Financial Debt = Financial debt – Cash equivalents

ROE = Net profit / Average Equity

EV = Market Capitalization + Net Financial Debt

P/E = Stock Price / EPS

P/CF = Stock Price / (Net Profit + amortization and depreciation)

P/BV = Stock Price / NBV per share

P/S = Market Capitalization / Revenue

Gross Dividend Yield = Dividend per share / Stock

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Date of issue	Valuation	Market price	Recommendation
4 May 2010	US\$ 19.50	US\$ 17.14	Buy
16 March 2010	US\$ 19.50	US\$ 16.25	Buy
28 January 2010	US\$ 18.00	US\$ 14.13	Buy
18 November 2009	US\$ 14.00	US\$ 17.10	Sell

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