

# CTC Media

16 March 2010

## Worth watching

<b>Media</b>		<b>Current price</b>	US\$ 16.25 *	<b>Buy</b>
<b>Russia</b>		<b>Fair value</b>	US\$ 19.50	Rating maintained
<b>Performance over</b>	<b>1M</b>	<b>3M</b>	<b>12M</b>	
<b>Absolute %</b>	21%	6%	300%	
<b>Rel. MSCI %</b>	11%	0%	98%	
<b>12m Hi/Lo</b>	US\$ 19.16 / 3.96			
<b>Reuters</b>	CTCM.O			
<b>Bloomberg</b>	CTCM US			
<b>Market cap € m</b>	1,678 m			
<b>Next corporate event</b>	1Q10 results on 29 April 2010			
<b>RUB / US\$</b>	29.40			
	<b>FY/e 31.12., (US\$ m)</b>	<b>2009A</b>	<b>2010F</b>	<b>2011F</b>
	<b>Sales</b>	506.1	577.0	720.3
	<b>EBITDA</b>	182.7	206.0	282.7
	<b>EBIT</b>	152.5	192.0	266.4
	<b>Net profit</b>	100.4	143.9	201.4
	<b>EPS (US\$)</b>	0.7	0.9	1.3
	<b>P/E (x)</b>	24.8	17.4	12.4
	<b>DPS (US\$)</b>	0.00	0.26	0.75
	<b>Yield (%)</b>	0.0%	1.6%	4.6%
	<b>EV/EBITDA (x)</b>	13.8	11.7	8.5

Source: CTC Media, KBC Securities estimates

**We have raised our estimates for CTC Media to reflect strong 4Q09 figures and an improved outlook, despite management's guidance for rising costs in 2010. We have lifted our EBITDA forecast by 5.0% to US\$ 206.0m (+13% y/y) for 2010, 5.6% to US\$ 282.7m (+37% y/y) for 2011, and 1.8% to US\$ 358.3m (+27% y/y) for 2012. Our fair value estimate has risen 8% to US\$ 19.50 per share, which implies 20% upside. We maintain our Buy rating on the stock.**

\*Priced at COB 15/03/10

### Buy rating maintained

- **Average revenue growth forecast at 23% in 2009-2012:** We continue to expect the value of Russia's TV ad market to remain flat y/y in 2010. We forecast CTC sales growth at 14% in 2010, mainly due to a stronger RUB versus US\$. In local currency terms, we expect the top line to grow 5% in 2010, driven by improving audience shares and technical penetration. CTC's top line is projected to recover by 25% in 2011 and 22% in 2012, driven by stronger Russian TV ad spending (19% and 22% respectively).
- **Margin to fall at smaller channels...:** CTC Media is expected to invest significantly in content quality at its smaller Russian channels (DTV and Domashny) in order to lift ratings, which is likely to push down the combined EBITDA margin by 15pp y/y in 2010. We expect the investments to be monetized after 2011.
- **...but profitability of CTC channel to remain intact:** We expect EBITDA at the main CTC channel to be broadly stable at 51.5% in 2010 and grow to 53.4% in 2011, driven by a rebound in ad revenues. This should partially offset the negative impact of investments at the smaller channels. We forecast consolidated costs to grow 15% y/y in RUB terms in 2010, in line with guidance. Overall we expect the group EBITDA margin to shrink by 6pp (adjusted for one-offs) to 35.7% in 2010.
- **Consensus to catch up:** Our EBITDA forecast is in line with the consensus for 2010 but 12% above for 2011 and 16% above for 2012. We believe the deviation stems from our higher forecasts in local currency rather than more aggressive US\$/RUB exchange-rate assumptions. We assume average US\$/RUB exchange rates at 29.32, 28.99 and 29.43 for 2010, 2011 and 2012 respectively.
- **Changes in ad law to have limited impact on CTC:** We maintain our view that CTC's market position is unlikely to suffer from recent changes in Russia's ad law. Potential lower pricing power vis-à-vis advertisers as a result of less cooperation with Video International could be offset by lower commissions. According to CTC, the law still lacks clarity and the impact on the market remains uncertain.
- **More upside potential:** The stock has gained 21% in the last month, performing in line with TVN and outperforming CME by 12%. On a 2011F EV/EBITDA of 8.5x, CTC Media trades broadly in line with regional peers, whilst we believe the entire sector is currently undervalued.

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**Refer to important disclosures, disclaimers and analyst certifications at the end of the body of this research.**

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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
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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*Interpretation of the recommendation:*

**BUY** – total return is expected to appreciate 10% or more

**HOLD** – total return is expected to be between 10% and –10%

**SELL** – total return is expected to depreciate 10% or more

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22 BUY	50%
14 HOLD	32%
8 SELL	18%

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