

CME conference call feedback

Price	US\$85.8	Last recommendation	Buy (maintained)
Last 12mth target price	US\$125 (maintained)	Ticker	CETV US
2008F EV/EBITDA	11.3x		

News

- CME held very informative conference call on 2Q results, full-year guidance, long-term guidance and detailed road map for Ukraine as well as on recent Bulgarian acquisition leaving us with mostly positive impressions.

Investment thesis

- Ex-currency organic growth was 21% for revenue and 27% for segment EBITDA for the group in 2Q08.
- CME gave detailed sales/segment EBITDA guidance for Ukraine. The latter is significantly lower than our estimates in 2008/09F and visibly higher in 2010F and thereafter. By 2012 CME expects Ukraine to generate US\$535/200m in revenue/segment EBITDA respectively which is 19%/11% higher than our current estimates.
- Road map for Ukraine includes inter alia the reset of news and local fiction entertainment in 2008, re-launch of *Studio 1+1* and *Kino* channels and the delivery of local fiction in 2009, and the kick-off for three new thematic channels to be distributed via CATV and DTH Sat TV in 2009 and 2010. Target is to regain #2 position in 2009F and become #1 TV broadcaster and internet company by 2011. Ukraine should become cash positive in 2010F as CME will heavily invest in this market in 2008/09F. CME expects TV ad spend in Ukraine to reach US\$1.5bn in 2014, up from estimated US\$395m in 2007 and we currently forecast US\$1.18bn for 2014F.
- Guidance for this year is unchanged with revenue/segment EBITDA of US\$1,100/425m for the group and includes already Bulgaria contribution in 2H08. This means management now expects higher segment EBITDA for ex-Bulgaria markets in 2008F as the latter is planned to generate losses at EBITDA this year. Management did not disclose the revenue/segment EBITDA contribution from Bulgaria.
- Management sounded very confident on delivery in Bulgaria highlighting that we should expect much faster value creation in Bulgaria than it was the case in Croatia which was the most similar past acquisition. First, two other commercial TV channels are up for sale including the largest channel BTV owned by News Corporation. Second, CME will roll-out multichannel strategy from day one which proved successful in all markets of the region. Third, competition has old school, imported programming and no vision. Management believes that purchase of a small channel such as TV2 had much more sense for CME than buying BTV. On the immature market like Bulgaria taking market share from bigger boys seems easier and cheaper than defending dominant position. Management sees no sign of slowdown for advertising demand in the regional markets although visibility of the advertising bookings for the next year is naturally very low at this point. Concerns about Romania are premature with company still seeing continued robust demand and price driven growth of advertising revenue. Ukraine will be a concern in 2H08 given macro and restructuring but the management guidance of zero segment EBITDA profit this year is not too challenging.

Conclusion

- **Message was detailed, confident and clear and should alleviate fair amount of concerns on Ukraine, Romania and possible cuts in ad spend in the region. Guidance on Ukraine is supportive for valuation although not for our 08F and 09F estimates. Weaker contribution from Ukraine in the medium term is likely to be more than offset with strength in other markets. Importantly, management feels comfortable with estimated year-end net debt/EBITDA ratio of 2.5x which would not necessitate fund raising. We expect positive market reaction to both results and the conference call.**

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