

Equity Research

Media

CME

Lower economic growth should lead to a much slower recovery of CME's results

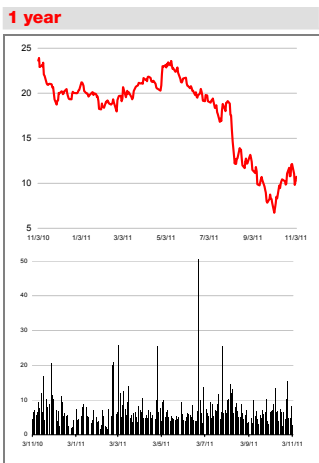
Hold

Price 11/03/11 12m target
 USD 10.7 USD 12.4
 CZK 189 CZK 203

Societe Generale Sector
 Weighting
Neutral

Type of investment

Emerging markets exposure	✓
Growth	✓



Source: Reuters

CME on trading.kb.cz

Share data			
RIC CETVsp.PR, Bloom CETV CD			
52-week range (CZK)	125.5-414		
Market cap. (USD m)	672		
Market cap. (CZK bn)	12.2		
Free float (%)	65		
Performance (% in CZK)	1m	3m	12m
Ordinary shares	36.8	-41.8	-54.1
Rel. PX index	36.0	-25.6	-41.9

■ **Investment case 3-6M:** CME shares have been under strong selling pressure in the second half of this year. We believe there are two main reasons: 1.) fear of a new recession caused a sell-off of all cyclical stocks. 2.) Investors became concerned about CME's huge debt, which is among the largest in the sector (relative to company's EBITDA). In our view, both factors will most likely continue to have a negative impact on CME in 2012. CME's financial results improved this year, but large interest expenses weighted on the results and the company needs further revenue growth. Given CME's already dominant position in most of its countries, CME needs advertising markets to rebound. However, economic growth in Western Europe is expected to slow down significantly in 2012, which should negatively affect countries in the CEE region. Advertising is a cyclical industry, so it is hardly imaginable that TV advertising markets will see strong growth anytime soon. We thus expect CME to remain in a net loss next year. Our DCF-based valuation shows some upside potential and CME is well positioned on most of its markets to benefit from a potential recovery. Unfortunately for CME, we think this won't be the story in the coming months.

■ **Fact/Impact:** CME's revenues will probably grow more than 15% this year and EBITDA by more than a half. However, 2011 EBITDA will probably be only at 50% its record 2008 level, whereas interest expenses doubled since that time. Therefore, it will be very difficult for CME to return to net profit in the coming years unless CEE TV advertising markets rebound strongly. This will most likely not happen in 2012, when we forecast only 4% growth of CME's revenues due to a challenging macroeconomic environment. We had to reduce our LT forecasts of CME's results as well, which led to a significant decline in our target price from USD 25 to USD 12.4.. In consequence, we downgraded our recommendation from Buy to Hold.

■ **12M target price:** USD 12.4/CZK 203 (based on the DCF model with a fair value of USD 13.4, a required return rate of 10.71% and an expected CZK/USD exchange rate of 16.42 in September 2012).

■ **Next events:** The Q4 and full-year 2011 results will probably be announced at the end of February.

Financial data	12/10	12/11e	12/12e	12/13e	Ratios	12/10	12/11e	12/12e	12/13e
Revenues (USD mn)	737	856	887	949	P/E adjusted (x)	n.m.	n.m.	n.m.	145.3
EBITDA margin (%)	14.6	19.5	20.4	23.7	Price / cash flow	n.m.	10.0	5.0	4.1
Rep. net inc. (USDmn)	100.2	-86.5	-28.3	4.7	Dividend yield (%)	0.0	0.0	0.0	0.0
EPS adjusted (USD)	-1.84	(1.34)	(0.44)	0.07	Price/book value (x)	0.6	0.6	0.6	0.6
Dividend/share (USD)	0.0	0.0	0.0	0.0	EV/revenues (x)	2.5	2.3	2.2	2.1
Payout (%)	0.0	0.0	0.0	0.0	EV/EBITDA (x)	17.3	11.6	11.0	8.9
Interest cover (x)	0.2	0.5	0.6	1.1	EV/IC (x)	1.6	1.6	1.7	1.7
Net debt/equity (%)	95.7	109.8	117.1	116.6					



Summary

We downgraded our recommendation for CME to Hold and cut our target price to USD 12.4.

We significantly lowered our one-year target price for CME from USD 25.0 to USD 12.4 per share. This reflects worse prospects of CEE TV advertising markets amid the European debt crisis, which should significantly lower GDP growth in the region. The recovery of CME's results toward their pre-crisis level should thus be much slower than we previously expected. Consequently, **we downgraded our recommendation for CME from Buy to Hold** as the target price now offers only a small upside to the current market price (less than 10% in CZK terms).

CME's quarterly results announced during this year confirmed the company's operating performance is improving steadily. On the other hand, OIBDA growth is slower than was expected a year ago. Additionally, **CME's high indebtedness weighs on the company's results.** The operating profit is usually not large enough to cover huge interest expenses. Further and significant improvement of operating profitability is thus still needed in order to achieve net profit regularly.

Economic growth in the CEE region is expected to slow down significantly. For example, the IMF has slashed its 2012 GDP growth forecasts on average 20% during the past six months. This is naturally negative news for CME, because it is hardly imaginable that advertising markets in the CEE region would grow strongly without solid growth of GDP.

Therefore, we expect CME's revenues will grow only very mildly in 2012. Thanks to the company's high operating leverage, this could enable more than 20% growth in operating profit but CME still would remain in a net loss, in our projections.

We now believe CME could exceed its record 2008 level of revenues in 2013, mostly thanks to improvements in Croatia and in Bulgaria, where CME purchased the country's leading station bTV in 2010. **However, we don't expect CME to reach its 2008 record level of EBITDA within our forecasting horizon** (i.e. until 2015).

CME is unattractive in a sector comparison as the shares are expensive when compared with its peers on virtually all major 2010-12 multiples. When looking at its past trading multiples, CME shares look cheap with P/EBITDA close to its all-time low. On the other hand, the EV/EBITDA multiple reminds us again of CME's problem with its large debt and shows there is still a significant downside risk.

The major risk to our forecasts is a recession in the eurozone, which could easily spread into the CEE region and trigger another decline of TV advertising markets in CME countries. The other important risks are the high sensitivity of the shares to changes in the discount rate and FX risk.



Latest development

Q111 results

The Q111 results were better than expected in all major items

Q1 11 results were better than expected, mostly thanks to strong performance in the Czech Republic and improvement in Bulgaria. Revenues exceeded even our optimistic estimate, which was the highest on the market. Operating profits were mildly below our estimates, but matched the consensus expectations. CME remained in a net loss, but the loss was significantly smaller than expected.

USDm	Q1 10	Q1 11	change	KB estimate	consensus
Revenues	143.6	172.7	20%	167.4	161.6
OIBDA	0.8	14.2	1675%	17.2	14.2
Operating profit	(19.1)	(7.7)	n.m.	(4.0)	(7.4)
Net profit	(42.3)	(21.1)	n.m.	(42.4)	(48.7)

Source: Economic & Strategy Research, Komerční banka, Reuters median estimate from the poll of 11 analysts including KB

Q211 results

The Q211 figures also surprised positively, except of net profit

Q2 11 results were better than expected in all major items except net profit. Revenues and operating profits exceeded even our optimistic estimates. The Czech operations delivered weaker results than we expected, but this was compensated by strong performance on the smaller markets, in Croatia and especially in Bulgaria. Additionally, CME booked a small FX gain in the quarter (compared with a huge FX loss a year ago), which enabled the company to reach a tiny net profit in Q2 11.

USDm	Q2 10	Q2 11	change	KB estimate	consensus
Revenues	201.7	249.7	23.8%	241.3	234.4
OIBDA	46.2	62.7	35.7%	58.8	56.4
Operating profit	25.5	39.5	55.2%	38.6	33.0
Net profit	(52.9)	0.8	n.m.	2.3	2.3

Source: Economic & Strategy Research, Komerční banka, Reuters median estimate from the poll of 14 analysts including KB

Q311 results

The Q311 operating results again exceeded estimates, but huge net loss was disappointing

On the operating level, the Q3 11 results were better than expected. Revenues and operating profits surprised mildly positively, driven mostly by the strong performance of Czech operations. However, the consolidated net loss exceeded even our pessimistic estimate due to a higher-than-expected FX loss.

USDm	Q3 10	Q3 11	change	KB estimate	consensus
Revenues	134.4	165.5	23.2%	153.8	152.1
OIBDA	(4.5)	8.9	n.m.	3.8	4.8
Operating profit	(25.3)	(12.9)	49.1%	(16.9)	(16.9)
Net profit	3.4	(82.2)	n.m.	(55.8)	(50.0)

Source: Economic & Strategy Research, Komerční banka, Reuters median estimate from the poll of 12 analysts including KB

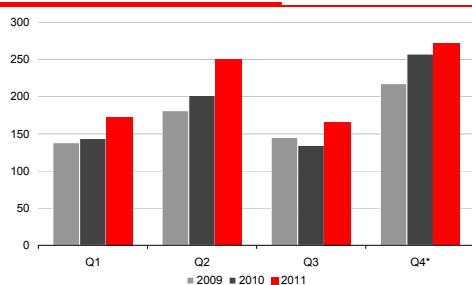
For the first nine months of this year, CME's revenues grew 22.6% yoy to USD 588m and OIBDA 102% yoy to USD 85.8m. CME's management repeated several times throughout the year that it is comfortable with the market consensus. Along with the Q311 results, the management has finally given a specific **2011 guidance: revenues of USD 850m and OIBDA of USD 166m.**

Equity Research

All the results announced during this year showed two major points:

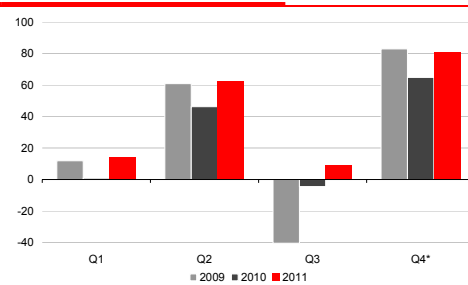
- CME's operating performance has improved steadily.** Compared with 2010, this year's revenues and OIBDA grew every quarter and are expected to grow in the fourth quarter as well. **On the other hand, OIBDA growth is slower than expected a year ago.** For example, we estimated in our November 2010 report that 2011 OIBDA could reach USD 199m, which was almost 20% above the current forecast (USD 166.8m).

Quarterly revenues (USDm)



Source: Economic & Strategy Research, Komerční banka, CME

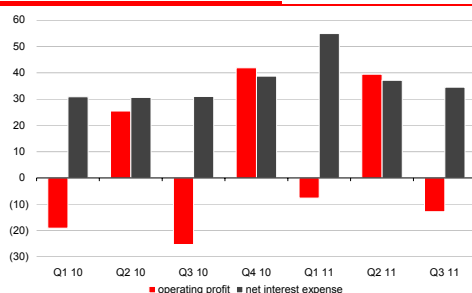
Quarterly OIBDA (USDm)



Source: Economic & Strategy Research, Komerční banka, CME

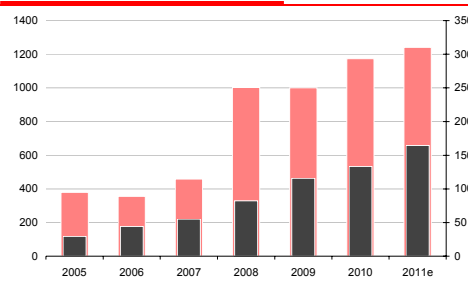
- CME's high indebtedness weights on the company's results.** CME increased its indebtedness (chart below on the right side) in the expansion years, especially in 2008, when the company purchased the remaining minority stake of its Ukrainian operations. This business was then sold with a loss at the beginning of 2010, while indebtedness further increased as CME purchased assets in Bulgaria almost at the same time. When the company's profitability dropped after the 2009 recession, it showed up that EBIT (operating profit) is usually not large enough to cover interest expenses (see chart below on the left), i.e. the company is not able to generate net profit regularly at this stage. **Further and significant improvement of operating profitability is thus still needed.**

Quarterly operating profit vs. interest expenses (USDm)



Source: Economic & Strategy Research, Komerční banka, CME

CME's debt size and interest costs (USDm)



Source: Economic & Strategy Research, Komerční banka, CME



Outlook for CME

Macro prospects in the region are worsening

GDP growth in the region is expected to slow down significantly, which is negative for CME shares

Economic growth in the CEE region is expected to slow down significantly. CME is currently present in six countries, out of which Slovenia and Slovakia are members of the eurozone. We don't have our own forecasts for all of CME's markets, so our assumptions are usually based on forecasts of the major financial institutions, such as the International Monetary Fund (IMF). The table below shows how the IMF has slashed its 2012 GDP growth forecasts during the past six months. This is naturally negative news for CME, because it is hardly imaginable that advertising markets in these countries grow strongly without solid growth of the whole economies. Note that our last report on CME from March was based on similar figures to those the IMF forecasted in April.

IMF forecasts (2012 GDP growth)

	forecast from Oct. 2011	forecast from April 2011	Change %	Change perc.points
Czech Republic	1.8%	2.9%	-38%	1.1
Slovakia	3.3%	4.2%	-21%	0.9
Slovenia	2.0%	2.4%	-17%	0.4
Romania	3.5%	4.4%	-20%	0.9
Croatia	1.8%	1.8%	0%	0.0
Bulgaria	3.0%	3.5%	-14%	0.5
Average of CME markets	2.6%	3.2%	-20%	0.6
USA	1.8%	2.9%	-38%	1.1
Euro area	1.1%	1.8%	-39%	0.7

Source: IMF

There are signs that GDP growth in the region will be even lower next year. For instance, the Czech Finance Ministry said last week it expects the Czech economy to grow only 1% in 2012. Additionally, the current Bloomberg consensus for Slovak 2012 GDP growth is 1.5%, i.e. less than half of what the IMF forecasted last month. The risk that a recession will return to the eurozone increases and this would heavily impact CEE economies. Therefore, our assumptions of economic growth on CME markets are on average 1 percentage point below the latest IMF forecasts.

We believe the 2011 guidance is achievable

We expect 2011 revenues and OIBDA to mildly exceed CME's guidance

We believe CME will be able to reach its 2011 guidance (revenues of USD 850m and OIBDA of USD 166m) because the company's visibility is already high at this part of the year and because revenues and OIBDA surprised us positively in Q3 11. The table below shows our forecasts for 2011 and 2012:

CME 2011 projections

	2010	2011e	change 2011/10	2012e	change 2012/11
Revenues	737.1	855.7	16.1%	887.2	3.7%
EBITDA	107.3	166.8	55.4%	181.3	8.7%
EBITDA margin	14.6%	19.5%	33.5%	20.4%	4.9%
operating profit	22.9	79.3	246.3%	96.3	21.4%
financial income/expense	-134.8	-160.5	n.m.	-133.3	n.m.
net profit	100.2	-86.5	n.m.	-28.3	n.m.
adjusted net profit	-113.1	-86.5	n.m.	-28.3	n.m.

Source: Economic & Strategy Research, Komerční banka, CME

Equity Research

In our projections, **CME should be in a net loss this year** due to its high financial (especially interest) expenses. Note that net profit should worsen significantly in a year-on-year comparison because 2010 results were supported by a one-off gain of USD 218m from selling assets in Ukraine.

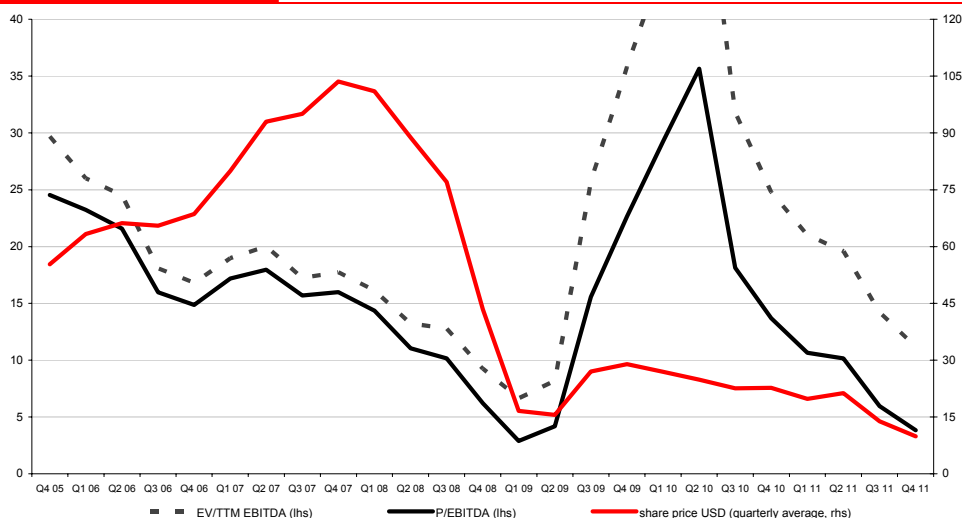
Based on the expected macroeconomic development on the previous page, **we expect CME's revenues will grow only very mildly in 2012**. Thanks to the company's high operating leverage, this could enable more than 20% growth in operating profit, which would, however, still not be enough to assure net profit.

Valuation seems cheap but might get cheaper

Based on EBITDA multiples CME looks quite attractive at the moment

It's quite hard to compare CME's past trading multiples with the current situation. It doesn't make much sense to use P/E, because the company is often in a net loss. Therefore, **our comparison is based on EBITDA multiples**. The graph below shows P/EBITDA is close to its all-time low (2.9 in Q1 09 versus the current level of around 4) which suggests the share price should have rather an upside potential. On the other hand, the EV/EBITDA multiple shows there is still some significant downside risk. EV/EBITDA also again reminds us of CME's problem with its large debt. Even if CME's share price was close to zero, the enterprise value-to-EBITDA multiple would be around 8 (compared with the record low of 6.6 in Q1 09). In other words, cheap might still get a lot more cheaper.

CME's share price and EBITDA multiples



Source: Economic & Strategy Research, Komerční banka

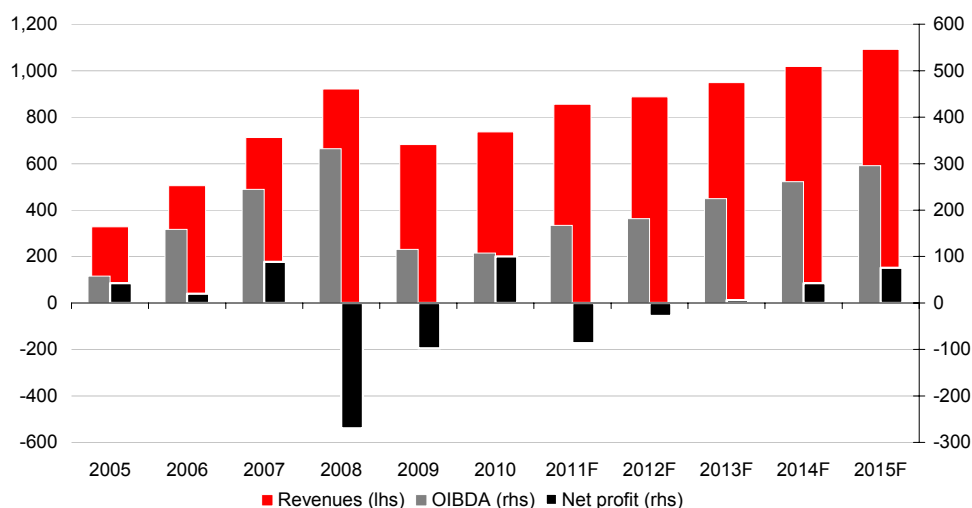
Equity Research

Long-term projections: The pre-crisis level of EBITDA won't be reached on our forecasting horizon

We expect record revenues in 2013, but OIBDA should grow only slowly.

We believe CME could exceed its record 2008 level of revenues in 2013, mostly thanks to improvements in Croatia and Bulgaria, where CME purchased the country's leading station bTV in 2010. However, we don't expect CME to reach its 2008 record level of EBITDA within our forecasting horizon. The major reasons are high competitive pressure on CME's formerly two largest markets (the Czech Republic and Romania), as well as only slow projected growth of TV advertising markets in the CEE region. It is hard to compare net profit levels due to several huge one-off items since 2008. We calculate the record adjusted net profit amounted to USD 105m in 2008. Similarly to EBITDA, this record level won't be reached until 2015, in our projection.

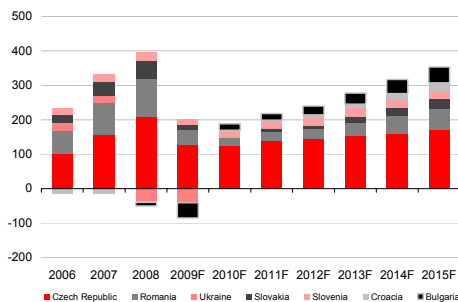
CME projections 2005-2015e (USDm)



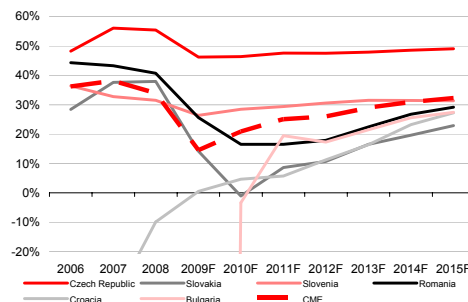
Source: Economic & Strategy Research, Komerční banka, CME

The diagrams below provide a detailed projection of our expected EBITDA breakdown by country, where we can see the increasing importance of Bulgaria and Croatia in the coming years, and our expected development of EBITDA margins, which we expect to return to above 30% in 2014 (compared with the record 38% on the consolidated level in 2008).

EBITDA by country (USDm)



EBITDA margin by country (%)

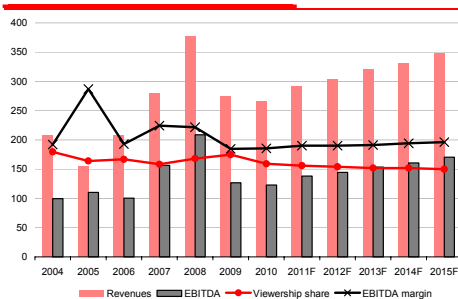


Source: Economic & Strategy Research, Komerční banka

Projections for individual markets

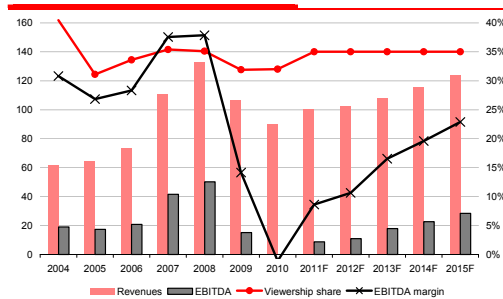
See below our detailed projections for CME markets (forecasts in USDm, showing the expected development of revenues, EBITDA, EBITDA margin and audience share in each country where CME is present). **We had to revise our projections on all CME markets due to the expected much slower recovery of TV advertising markets in the region.** CME already enjoys a leading position on all of its markets, so it is difficult to further expand its market share. We project that on its core markets (the Czech Republic, Romania and Slovakia), CME won't reach its pre-crisis level of revenues and EBITDA within our forecasting horizon. On the other hand, CME's results should show an upward trend in Croatia and Bulgaria.

CME Czech Republic (USDm)



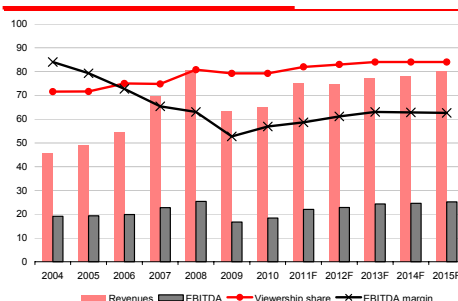
Source: CME, Economic & Strategy Research, Komerční banka

CME Slovakia (USDm)



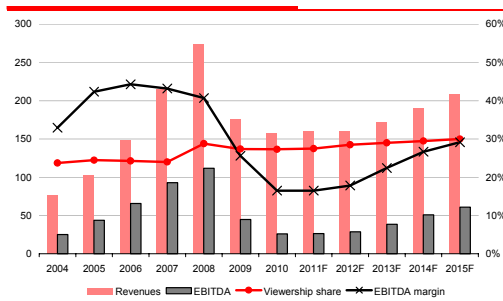
Source: CME, Economic & Strategy Research, Komerční banka

CME Slovenia (USDm)



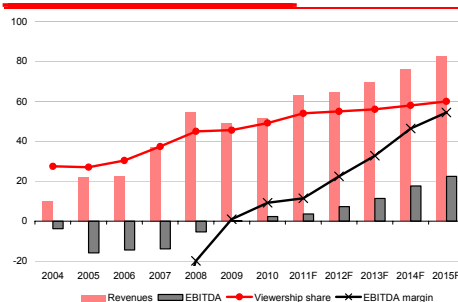
Source: CME, Economic & Strategy Research, Komerční banka

CME Romania (USDm)



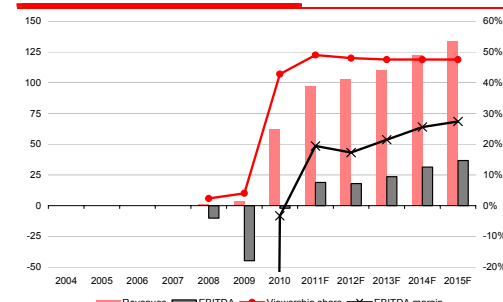
Source: CME, Economic & Strategy Research, Komerční banka

CME Croatia (USDm)



Source: CME, Economic & Strategy Research, Komerční banka

CME Bulgaria (USDm)



Source: CME, Economic & Strategy Research, Komerční banka



Valuation

Fair value from the DCF model was calculated at USD 13.4 and we set the target price at USD 12.4 per share.

We used the DCF model to estimate the fair value of CME shares. We discounted the projected cash flows to the end of 2010 using WACC of 10.71% (previously 10.65%) and a long-term growth rate of 3%, which is justified as expected LT growth rate of the CEE advertising markets (slightly higher than the 2.5% average growth of the world's biggest advertising markets from 1981 to 2008). The WACC calculation is further based on beta of 1.64 (calculated beta from three years of trading on NASDAQ, which is the primary market for CME shares), capital structure of 50% debt, 50% equity (market value of debt is now already 64% of the enterprise value)

Based on our model, **we calculated the fair value of CME's shares at USD 13.4 per share.** To achieve the target price, we reflect three parameters that may be assigned values ranging from -10% to +10% each, which means the target price may range from 70% to 130% of the fair value. Using these parameters **we set our target price at USD 12.4** (fair value -7.5%).

- **Sector appeal (+0%):** Societe Generale currently has a Neutral rating on the media sector.
- **Company appeal (+0%):** CME shares offer slightly above-average liquidity on the PSE, but this advantage is offset by the large volatility of the shares.
- **Speculative appeal (-7.5%):** The shares are very unattractive in a sector comparison. Cyclical stocks such as CME might remain under selling pressure as the risk of global recession increases.

Calculation of DCF fair value

WACC	10.71%
LT growth rate	3.0%
Terminal value (USDm)	2,682,351
Cumul. PV of CF	520,963
PV of terminal value	1,570,895
PV of EV	2,091,857
Less net debt	-1,229,900
Equity value	861,957
Number of shares (mn)	64.4
DCF fair value per share (USD)	13.4
12 months target price (USD)	12.4
Expected CZK/USD exchange rate in Sept. 2012	16.4
12 months target price (CZK)	203

Source: Economic & Strategy Research, Komerční banka

The following table provides a snapshot of sensitivity of CME's target price to changes in WACC and long-term growth rate.

Sensitivity analysis

r	WACC	9.7%	10.2%	10.7%	11.2%	11.7%
1.0%		10.4	8.7	7.2	5.9	4.7
2.0%		13.3	11.2	9.4	7.8	6.4
3.0%		17.0	14.5	12.4	10.3	8.5
4.0%		22.1	18.7	15.8	13.4	11.2
5.0%		29.3	24.6	20.7	17.5	14.7

Source: Economic & Strategy Research, Komerční banka



Sector comparison

CME trades with a high premium to most other media companies.

We have also looked at a sector comparison with leading European media companies as a supportive method in our valuation. **CME still looks expensive when compared with its peers** on virtually all major 2010-12 multiples. CME shares are traded at a high premium to the sector based on both P/E and EV/EBITDA. Additionally, most of its peers offer a solid dividend yield, while CME never paid dividends, and there is no sign it will start to in the near future.

On the other hand, we believe CME should be traded with a premium to media companies in Western Europe due to its exposure on high-growth markets and also with a premium to its CEE peers thanks to CME's leading position on most of its markets (CME has a market share of two-thirds or even more on most of its markets).

Western Europe

Company	P/E			Dividend yield (%)			EV/ EBITDA		
	2010	2011e	2012e	2010	2011e	2012e	2010	2011e	2012e
ANTENA 3 TELEVISION	8.1	9.2	9.6	9.6	9.0	8.4	6.2	7.2	7.6
GESTEVISION TELECINCO SA	7.4	10.7	11.4	8.3	8.3	8.3	8.5	9.4	10.2
M6-METROPOLE TELEVISION	10.1	9.8	10.0	7.8	8.5	8.5	4.0	4.1	4.2
MODERN TIMES GROUP	12.9	12.2	11.1	1.9	2.6	3.0	10.2	9.5	9.1
PAGESJAUNES GROUPE	3.2	3.8	4.0	21.0	17.0	15.9	5.4	5.7	5.9
PROSIEBEN SAT.1 MEDIA	8.2	7.8	7.7	5.2	8.7	9.3	7.5	7.5	7.7
REED ELSEVIER PLC	12.2	11.4	10.6	4.0	4.1	4.4	3.6	3.5	3.3
RTL GROUP	17.8	16.1	15.6	6.0	6.7	7.3	9.9	9.2	9.3
TELEVISION FRANC. (T.F.1)	14.8	9.5	9.4	5.0	7.2	7.3	6.3	5.0	5.0
VIVENDI	7.1	6.6	6.4	8.9	9.4	9.7	4.2	4.4	4.3
WOLTERS KLUWER	8.5	8.4	7.9	5.5	5.6	5.8	7.5	7.4	6.9
median Western Europe	8.5	9.5	9.6	6.0	8.3	8.3	6.3	7.2	6.9
CME	n.m.	n.m.	77.0	0.0	0.0	0.0	17.4	11.2	9.1

Source: Economic & Strategy Research, Komerční banka, Bloomberg data at 1 November, 2011

Central and Eastern Europe

Company	P/E			Dividend yield (%)			EV/ EBITDA		
	2010	2011e	2012e	2010	2011e	2012e	2010	2011e	2012e
Agora	9.2	13.4	13.7	3.0	3.3	3.6	4.2	4.1	4.2
CTC Media	11.9	10.2	8.9	3.9	7.7	7.4	7.3	5.8	5.1
TVN	34.3	30.9	20.0	1.5	1.0	1.8	10.3	9.8	8.7
median Eastern Europe	11.9	13.4	13.7	3.0	3.3	3.6	7.3	5.8	5.1
CME	n.m.	n.m.	77.0	0.0	0.0	0.0	17.4	11.2	9.1

Source: Economic & Strategy Research, Komerční banka, Bloomberg data at 1 November, 2011

Media sector

	P/E			Dividend yield (%)			EV/ EBITDA		
	2010	2011e	2012e	2010	2011e	2012e	2010	2011e	2012e
Sector median	9.7	10.0	9.8	5.3	7.4	7.4	6.8	6.5	6.4
CME	n.m.	n.m.	77.0	0.0	0.0	0.0	17.4	11.2	9.1
CME premium (discount)	n.m.	n.m.	684%	n.m.	n.m.	n.m.	157%	73%	42%

Source: Economic & Strategy Research, Komerční banka, Bloomberg data at 1 November, 2011

Risks

Investors in CME shares face several risks:

1. **High sensitivity of CME valuation on discount rates**, i.e. on interest rates and risk premiums prevailing on the market. At the same time this is an upside risk as discount rates (especially risk premiums) may further decrease from the current levels.
2. **Advertising is a cyclical sector**. A recession on CEE markets hurts CME more than other shares. Should the recession on CEE TV markets last longer than expected, CME's results would be hit even stronger.
3. **Exchange rate risk**. CME reports in USD, has a majority of its debt in EUR, revenues in the CEE area (i.e. closer to EUR than USD) and part of its programming costs in USD. Overall, the strengthening of CEE currencies is positive for CME and the strengthening of USD is negative.
4. **Political risk**. CME depends on state authorities for licence renewals and advertising legislation; fees are charged for licence renewals and / or broadcasting.
5. **Competition**. While there are barriers of entry to the sector and newcomers must reach critical mass to be profitable, CME is dominant but not the monopoly broadcaster on its markets and its market share may drop in the future. Competition may lead to increased programming costs. CME has above-average profitability, which may not be sustainable forever.
6. **Technological changes**. Private TV has been profitable for decades but a change in technology ending the cash flow stream cannot be excluded in the long term; fragmentation of TV viewership has already hurt TV stations' margins in Europe. Advertising may shift gradually from TV to Internet; CME tries to hedge against this by developing online activities on most of its markets.
7. **Very high historical volatility of CME shares**. The media sector exhibits above-average volatility. CME shares traded on exceptionally high P/E during 2007 when the markets peaked and on very low multiples in the beginning of 2009 at the end of the bear market. This could repeat in the future and cause the market price to overshoot our fundamental valuation.
8. **High volatility of quarterly results**. CME sales and margins have fluctuated heavily in recent years, leading to the occasional disappointment of investors over results and price drops. Advertising demand is seasonal, viewership figures depend on broadcasting of advertising content and the development of operating costs is not smooth.
9. **Management transactions**. The CEO of the company sold CME shares several times this and last year. This could continue and give investors a negative psychological impulse.



Equity Research

CME financial data 2006-2015e

Valuation*	2006	2007	2008	2009	2010	2011F	2012F	2013F	2014F	2015F
P/E (x)	21.3	4.9	-2.2	-29.9	-5.8	-8.0	-24.4	145.3	16.6	9.3
Price/cash flow (x)	6.7	3.0	-2.4	-22.8	3.8	697.9	12.1	7.8	5.6	4.4
Price/free cash flow (x)	5.9	3.9	3.9	8.2	6.9	4.7	5.2	3.9	3.6	3.1
Price/book value (x)	0.4	0.3	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.6
EV/revenues (x)	1.3	1.1	1.6	2.3	2.5	2.3	2.2	2.1	1.9	1.8
EV/EBITDA (x)	4.3	3.4	4.4	13.7	17.3	11.6	11.0	8.9	7.5	6.5
Gross yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Per share data (USD)										
EPS (adj.)	0.5	2.2	-4.8	-0.4	-1.8	-1.3	-0.4	0.1	0.6	1.2
Goodwil amortisation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash flow	1.6	3.6	-4.4	-0.5	2.8	0.0	0.9	1.4	1.9	2.4
Book value	25.4	34.2	23.6	18.5	19.1	17.7	17.3	17.3	18.0	19.1
Gross dividend	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Income statement (USDmn)										
Revenues	603.1	840.0	920.5	681.9	737.1	855.7	887.2	948.8	1018.2	1092.5
EBITDA	184.7	264.3	331.7	115.4	107.3	166.8	181.3	224.8	261.3	295.6
Depreciation and amort. (ex.GWamort.)	-44.6	-58.3	-82.4	-71.5	-80.4	-87.5	-85.0	-84.0	-82.6	-82.0
EBITA	140.7	206.0	183.5	-39.0	22.9	79.3	96.3	140.9	178.7	213.5
Goodwil amortisation	0.0	0.0	-64.9	-81.8	0.0	0.0	0.0	0.0	0.0	0.0
Net interest income	-37.9	-49.3	-72.7	-112.9	-131.3	-161.1	-145.4	-126.1	-119.1	-116.5
Exceptional & non-operating items	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Taxation	-15.0	-20.8	-42.2	-4.7	-5.0	-4.2	9.8	-2.9	-11.9	-19.4
Minority interests	-13.6	-17.2	-2.1	10.7	3.4	-1.0	-1.1	-1.8	-2.8	-3.5
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reported net income	20.4	88.6	-269.5	-97.2	100.2	-86.5	-28.3	4.7	41.4	74.1
Net income excl. exceptionals & GW	66.1	123.0	-169.1	-98.2	-117.4	-86.5	-28.3	4.7	41.4	74.1
Cash flow statement (USDmn)										
EBITDA	184.7	264.3	331.7	115.4	107.3	166.8	181.3	224.8	261.3	295.6
Change in working capital	-10.0	-23.1	-120.3	58.6	-9.6	-3.6	-21.0	-11.5	-21.5	-12.1
Other operating cash movements	-18.7	-40.1	-22.8	-73.1	99.0	25.8	-26.3	-4.9	-4.9	-4.4
Cash flow from operating activities	156.0	201.0	188.6	100.9	196.7	189.0	134.0	208.4	234.9	279.1
Net capital expenditures	-101.5	-122.8	-108.8	-139.6	-56.6	-71.9	-77.1	-77.7	-77.7	-83.7
Cash flow from investing activities	-348.1	-461.6	-187.1	-149.5	-417.5	-152.6	-60.0	-71.7	-75.6	-84.6
Cash flow from financing activities	356.8	371.2	480.7	528.1	-54.3	-0.8	48.5	-20.8	-13.9	0.0
Net change in cash resulting from CF	164.7	110.7	482.2	479.5	-275.2	35.6	122.5	115.9	145.4	194.4
Balance sheet (USDmn)										
Total long-term assets	499.8	694.3	872.3	855.1	1107.2	1146.9	1121.9	1109.6	1102.7	1105.3
Of which intangible assets	347.3	482.0	628.3	535.8	824.5	884.3	867.2	861.2	859.1	860.0
Working capital	18.5	76.4	213.1	236.3	144.0	142.9	176.3	193.7	221.9	241.3
Shareholders' equity	1,035.8	1,399.8	1001.2	1177.6	1226.9	1140.4	1112.1	1116.8	1158.2	1232.3
Minority interests	26.2	23.2	3.2	-5.7	20.9	17.5	18.5	19.6	21.5	24.3
Provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net debt (-)/cash (+)	-355.8	-458.3	-1104.8	-1020.8	-1219.2	-1348.6	-1399.2	-1398.6	-1376.6	-1321.6

Source: Economic & Strategy Research, Komerční banka, all valuation multiples are compounded using the current share price



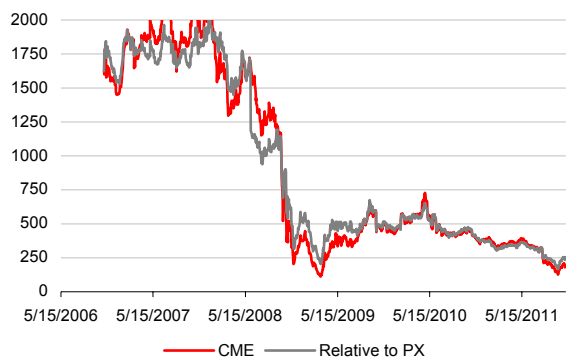
Equity Research

Accounting ratios 2006-2015e

	2006	2007	2008	2009	2010	2011F	2012F	2013F	2014F	2015F
Profitability										
ROIC (%)	49.3	33.0	21.0	-4.1	1.8	6.2	6.6	9.5	12.0	14.3
ROE (%)	2.4	7.3	-22.5	-8.9	8.3	-7.3	-2.5	0.4	3.6	6.2
Margins										
EBITDA margin (%)	30.6	31.5	36.0	16.9	14.6	19.5	20.4	23.7	25.7	27.1
EBITA margin (%)	23.3	24.5	19.9	-5.7	3.1	9.3	10.9	14.8	17.6	19.5
Growth rates										
Revenue yoy growth (%)	50.4	39.3	9.6	-25.9	8.1	16.1	3.7	6.9	7.3	7.3
EBITDA yoy growth (%)	131.2	43.1	25.5	-65.2	-7.0	55.4	8.7	24.0	16.2	13.1
EBITA yoy growth (%)	168.6	46.5	-11.0	-121.2	-158.7	246.6	21.4	46.3	26.9	19.5
Reported net income yoy growth (%)	-51.9	333.6	-404.3	-64.0	-203.1	-186.4	-67.3	-116.8	773.0	79.0
Net income excl. exceptionals & GW yoy growth (%)	65.8	86.2	-237.5	-41.9	19.6	-26.3	-67.3	-116.8	773.0	79.0
EPS (adj.) yoy growth (%)	-58.1	331.2	-322.8	-92.6	413.1	-26.8	-67.3	-116.8	773.0	79.0
Financing										
Net debt/equity (%)	34.4	32.7	100.1	84.9	95.7	109.8	117.1	116.6	110.5	99.4
Interest cover (x)	3.2	3.7	2.2	-0.3	0.2	0.5	0.6	1.1	1.5	1.8
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

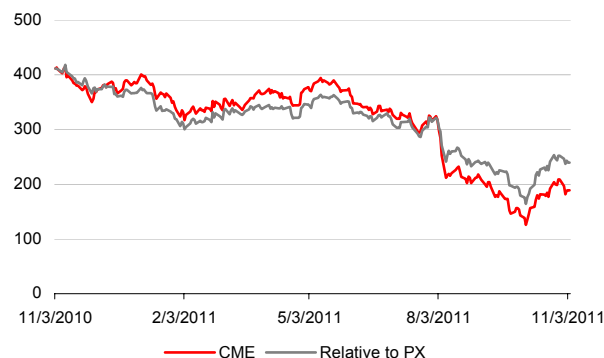
Source: Economic & Strategy Research, Komerční banka

CME share price vs. the PX index (3 years)



Source: Reuters, Economic & Strategy Research, Komerční banka

CME share price vs. the PX index (1 year)



Source: Reuters, Economic & Strategy Research, Komerční banka

**Equity Research****KB ECONOMIC & STRATEGY RESEARCH**

Chief Economist and Head of Research
 Jan Vejmelek, Ph.D., CFA
 (420) 222 008 568
 jan_vejmelek@kb.cz

Economists
 Anne-Françoise Blüher
 (420) 222 008 524
 anne_bluher@kb.cz

Jiří Škop, Ph.D.
 (420) 222 008 569
 jiri_skop@kb.cz

Miroslav Frayer
 (420) 222 008 567
 miroslav_frayer@kb.cz

Junior Economist
 Marek Dřimal
 (420) 222 008 598
 marek_dřimal@kb.cz

Equity Analysts
 Miroslav Adamkovič, CFA
 (420) 222 008 523
 miroslav_adamkovic@kb.cz

Josef Němý, CFA
 (420) 222 008 560
 josef_nemy@kb.cz

SG IN CENTRAL AND EASTERN EUROPE

Chief Economist of SG Poland
 Jaroslav Janecki
 (48) 225 284 162
 jaroslav.janecki@sgcib.com

Head of Research of Rosbank
 Vladimir Kolychev
 (74) 957 255 637
 vkolychev@mx.rosbank.ru

Chief Economist of BRD-GSG
 Florian Libacor
 (40) 213 016 869
 florian.libacor@brd.ro

SG Serbia - Strategist
 Sanja RAJKOVIC-TREBALJEVAC
 (381) 11 22 21 244
 Sanja.Rajkovic-Trebaljevac@socgen.com

Head of Financial Markets Research BRD-GSG
 Carmen Lipara
 (40) 213 014 370
 carmen.lipara@brd.ro

Economist
 Monica Croitoru
 (40) 213 016 858
 monica.croitoru@brd.ro

Equity Analyst
 Laura Simion, CFA
 (40) 213 014 461
 laura.simion@brd.ro

Junior Analyst
 Razvan Panturu
 (40) 213 014 337
 Razvan.panturu@brd.ro

SG GLOBAL ECONOMICS RESEARCH

Head of Global Economics
 Michala Marcussen
 (44) 20 7676 7813
 michala.marcussen@sgcib.com

Euro area
 Klaus Baader
 (44) 20 7676 7609
 klaus.baader@sgcib.com

James Nixon
 (44) 20 7676 7385
 james.nixon@sgcib.com

Vladimir Pillonca
 (44)20 7676 7863
 vladimir.pillonca@sgcib.com

Michel Martinez
 michel.martinez@sgcib.com

United Kingdom
 Brian Hilliard
 (44) 20 7676 7165
 brian.hilliard@sgcib.com

Scandinavia/Switzerland
 Anatoli Annenkov
 (44) 20 7762 4676
 anatoli.annenkov@sgcib.com

Americas
 Brian Jones
 (1) 21 22 78 69 55
 brian.jones@sgcib.com

Aneta Markowska
 (1) 212 278 66 53
 aneta.markowska@sgcib.com

Alejandro Cuadrado
 (1) 212 278 73 13
 alejandro.cuadrado@sgcib.com

Rudy Narvas
 (212) 278 7662
 rudy.narvas@sgcib.com

Asia Pacific
 Glenn Maguire
 (852) 21 66 54 38
 glenn.maguire@socgen.com

Takuji Okubo
 (81) 3 5549 5560
 takuji.okubo@socgen.com

Wei Yao
 (852) 21 66 45 37
 wei.yao@sgcib.com

Joseph Lau
 (852) 21 66 54 41
 Joseph.lau@sgcib.com

SG CROSS ASSET RESEARCH - FIXED INCOME & FOREX GROUPS

Global Head of Research
 Patrick Legland
 (33) 1 42 13 97 79
 patrick.legland@sgcib.com

Head of Fixed Income Strategy
 Vincent Chaigneau
 (44) 20 7676 7707
 vincent.chaigneau@sgcib.com

Ciaran O'Hagan
 (33) 1 42 13 58 60
 ciaran.ohagan@sgcib.com

Adam Kurpiel
 (33) 1 42 13 63 42
 adam.kurpiel@sgcib.com

David Mendez-Vives
 (33) 1 42 13 31 03
 david.mendez-vives@sgcib.com

Jose Sarafana
 (33) 1 42 13 56 59
 jose.sarafana@sgcib.com

Mark Capleton
 (44) 20 7676 7956
 mark.capleton@sgcib.com

Patrick Gouraud
 (44) 20 7676 7850
 patrick.gouraud@sgcib.com

Wee-Khoon Chong (Hong Kong)
 (852) 2166 5462
 wee-khoon.chong@sgcib.com

Christian Carrillo (Asia-Pacific)
 (81) 3 5549 5626
 christian.carrillo@sgcib.com

Fidelio Tata (New York)
 (1) 212 278 6213
 fidelio.tata@sgcib.com

Head of Foreign Exchange
 Kit Juckes
 (44) 20 7676 7972
 kit.juckes@sgcib.com

David Deddouche
 (33) 1 42 13 56 22
 david.deddouche@sgcib.com

Cliff Tan
 (852) 2166 5461
 cliff.tan@sgcib.com

Peter Frank
 (44) 20 7676 7458
 peter.frank@sgcib.com

Olivier Korber (Derivatives)
 (33) 1 42 13 32 88
 olivier.korber@sgcib.com

Michael Sneyd
 (44) 2076767 878
 michael.sneyd@sgcib.com

Head of Emerging Markets Strategy
 Benoît Anne
 (44) 20 7676 7622
 benoit.anne@sgcib.com

Economists of Emerging Markets Strategy
 Guillaume Salomon
 (44) 20 7676 7514
 guillaume.salomon@sgcib.com

Gaëlle Blanchard
 (44) 20 7676 7439
 gaelle.blanchard@sgcib.com

Esther Law
 (44) 20 7676 7396
 esther.law@sgcib.com

Nalini Cundapen
 (44) 20 76 76 7491
 nalini.cundapen@sgcib.com

Technical analysis
 Hugues Naka
 (33) 1 42 13 51 10
 hugues.naka@sgcib.com

Fabien Manac'h
 (33) 1 42 13 88 35
 fabien.manach@sgcib.com

**Equity Research**

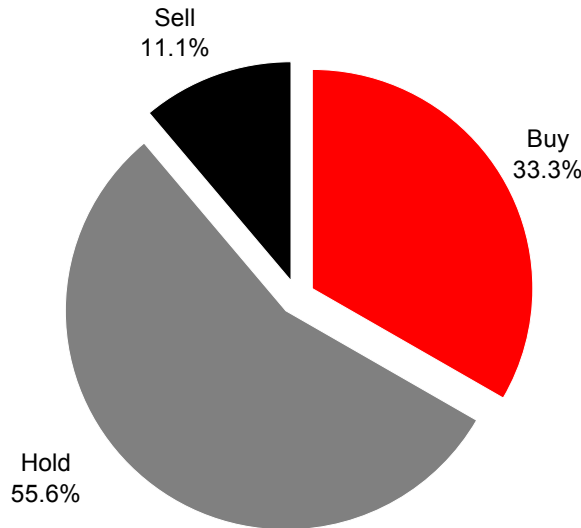
The recommendation in this document and/or the document itself was not disclosed to the issuer before its dissemination.

This recommendation is not updated at regular intervals. The date of the next update has not yet been determined and finally will be influenced by relevant changes of the facts used as the ground for this recommendation to reflect proper development in the industry and/or the analyzed company.

The main methods Komerční Banka is using for setting target price for stocks are discounted free cash flow analysis and sector comparison. Other methods may also be used if deemed appropriate by the analyst (e.g. sum of parts valuation, discounted dividend valuation, discount / premium to NAV). Target price is set for the time period of 12 months. Komerční Banka is using three grades of investment recommendation: buy, hold and sell. The recommendation is set for the time period of the next three to six months. The most important factor for setting the recommendation is the difference between actual market price and target price calculated by KB equity research. The recommendation should reflect also other factors the analyst expects to influence the stock and market in the time period of the next 3-6 months, i.e. target price substantially above current price does not automatically mean a buy recommendation for the next 3-6 months. Valuation methods and factors key for setting the recommendation are explained in the text of each analysis.

The chart below shows the structure of grades of valid investment recommendations of equity research of KB Economic & Strategy Research (9 recommendations).

Investment recommendations of KB equity research (as of 4 November, 2011)



Source: Economic & Strategy Research, Komerční banka



Equity Research

	ČEZ	Telefonica O2 CR	CME	Orco	Philip Morris CR	NWR	Pegas Nonwovens	Unipetrol	Fortuna	ECM	KIT Digital
Overview of last investment research and recommendation related to stocks of particular issuers*											
Recommendation	hold	hold	hold	sell	buy	buy	buy	hold	hold	-	-
Target price	CZK 933	CZK 422	USD 12.4	CZK 100	CZK 10,600	CZK 213	CZK 520	CZK 179	CZK 125	coverage discontinued	coverage discontinued
Date	15/4/11	25/5/11	4/11/11	22/9/11	18/5/11	8/9/11	15/4/11	22/6/11	21/6/11	26/1/11	19/8/10
Overview of investment researches and recommendations for last 12M (quarterly)											
Recommendation	hold	buy	buy	sell	buy	hold	buy	sell	hold	sell	hold
Target price	CZK 816	CZK 430	USD 25	CZK 163	CZK 11,000	CZK 305	CZK 500	CZK 173	EUR 4.25	none	USD 10.5
Date	3/12/10	15/9/10	21/3/11	26/1/11	8/10/10	31/1/11	4/8/10	3/12/10	10/11/10	16/7/10	19/8/10
Recommendation	hold	sell	hold	hold	buy	buy	buy	sell	-	sell	sell
Target price	CZK 960	CZK 435	USD 26	CZK 138	CZK 10,567	CZK 320	CZK 488	CZK 179	EUR 4.25	CZK 145	USD 9.0
Date	25/06/10	2/4/10	8/11/10	16/7/10	10/5/10	22/04/10	29/01/10	25/05/10	20/10/10	22/12/09	11/2/10
Direct or indirect share (5% or more) of the issuer of the registered capital of KB	no	no	no	no	no	no	no	no	no	no	no
Other significant financial interest of KB and/or its linked persons in the issuer	no	no	no	no	no	no	no	no	no	no	no
KB direct or indirect share (5% or more) of the registered capital of the issuer.	no	no	no	no	no	no	no	no	no	no	no
Significant financial interest in the issuer of the persons participating in elaboration of investment researches and recommendations.	no	no	no	no	no	no	no	no	no	no	no
Relationships of Komerční banka with particular issuers											
KB Management or co-management of public offerings in the past 12 month	no	no	no	no	no	no	no	no	no	no	no
Agreements or contractual relations for providing investment services with the issuer.	KB can have concluded agreements with the issuer for providing investment services. This information is protected by bank secret and could not be disclosed.										
Agreement with the issuer on production and dissemination of the research	no	no	no	no	no	no	no	no	no	no	no
KB market making** for common stocks of the issuer?	yes	yes	no	no	no	no	no	no	no	no	no

Source: Economic & Strategy Research, Komerční banka



DISCLAIMER

The information herein is not intended to be an offer to buy or sell, or a solicitation of an offer to buy or sell, any securities and including any expression of opinion, has been obtained from or is based upon sources believed to be reliable but is not guaranteed as to accuracy or completeness although Komerční banka, a.s. believe it to be fair and not misleading or deceptive. Komerční banka, a.s. and its affiliated companies, may from time to time deal in, profit from the trading of, hold or act as market-makers or act as advisers, brokers or bankers in relation to the securities, or derivatives thereof, of persons, firms or entities mentioned in this document. Employees of Komerční banka, a.s. and its affiliated companies, or individuals connected to then including the authors of this report, may from time to time have a position in or be holding any of the investments or related investments mentioned in this document. Komerční banka, a.s. and its affiliated companies are under no obligation to disclose or take account of this document when advising or dealing with or for their customers.

The views of Komerční banka, a.s. reflected in this document may change without notice. To the maximum extent possible at law, Komerční banka, a.s. does not accept any liability whatsoever arising from the use of the material or information contained herein. This research document is not intended for use by or targeted at private customers. Should a private customer obtain a copy of this report they should not base their investment decisions solely on the basis of this document but must seek independent financial advice.

This publication is issued by Komerční banka, a.s. which is a bank/stockbroker regulated by Czech National Bank. Komerční banka, a.s. applies various measures to prevent conflict of interests during the process of creation of investment recommendations. Any benefits of people creating investment recommendations is not by any means tied with volume or profit of trades done by Komerční banka, a.s. with a particular instrument or issuer of such instrument. As per our practice, issuers usually do not receive a copy of research reports prior to publication. Each author of this research report hereby certifies that (i) the views expressed in the research report accurately reflect his or her personal views about any and all of the subject securities or issuers and (ii) no part of his or her compensation was, is, or will be related, directly or indirectly, to the specific recommendations or views expressed in this report.

Please refer to our website <http://www.trading.kb.cz> for more details.