

October 25, 2011

Key Metrics

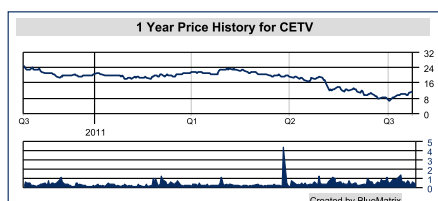
CETV - NASDAQ	\$11.70
Pricing Date	Oct 24 2011
Price Target	\$25.00
52-Week Range	\$25.84 - \$6.54
Shares Outstanding (mm)	64.4
Market Capitalization (\$mm)	\$753.2
3-Mo Average Daily Volume	594,453
Institutional Ownership	73%
Debt/Total Capital	52.4%
ROE	NM
Book Value/Share	\$23.65
Price/Book	0.5x
Dividend Yield	NM
LTM EBITDA Margin	NM

Revenue(\$mm)

	2010A	Prior 2011E	Curr. 2011E	Prior 2012E	Curr. 2012E
1Q-Mar	143.6	--	172.8A	--	--
2Q-Jun	201.7	235.3E	249.7A	--	--
3Q-Sep	134.4	151.8E	150.1E	--	--
4Q-Dec	257.4	285.5E	267.8E	--	--
FY	737.1	845.4E	840.3E	922.6E	873.1E

OIBDA

	2010A	Prior 2011E	Curr. 2011E	Prior 2012E	Curr. 2012E
1Q-Mar	0.8	--	14.2A	--	--
2Q-Jun	46.2	65.6E	62.7A	--	--
3Q-Sep	(4.5)	2.4E	4.3E	--	--
4Q-Dec	64.8	82.6E	77.9E	--	--
FY	107.3	164.9E	159.1E	212.4E	193.8E



Company Description:

Central European Media Enterprises (www.cetv-net.com) is a TV broadcasting company with leading networks in six Central and Eastern European countries. The company's television stations are located in Croatia (Nova TV), Czech Republic (TV Nova, Nova Sport and Nova Cinema), Romania (PRO TV, Acasa, PRO Cinema, MTV, Sport.ro and PRO TV International), Slovakia (Markíza and Doma), Slovenia (POP TV, Kanal A and TV Pika), and Bulgaria (bTV, PRO.BG and RING.BG).

Central European Media Enterprises

Rating: Buy

3Q11 Preview: Expect Modest Improvements Despite Ongoing Uncertainties

Investment Highlights:

- CETV Likely To Show Modest Improvements in 3Q11.** CETV is scheduled to report 3Q11 results on Wednesday, October 26. We expect the company to report modest growth in revenues and OIBDA. On Sept 21, CETV canceled its scheduled release of FY revenue and OIBDA guidance; however, management has recently indicated that the company is on track to meet market expectations of FY revenue and OIBDA of \$850mm and \$166mm, respectively.
- Our Estimates.** We are modeling revenue of \$150.1mm for 3Q11, which reflects 11.7% y/y growth over last year's \$134.4mm. Our OIBDA projection, however, assumes significant growth to \$4.3mm from last year's loss of \$4.5mm. While our estimates are more aggressive than consensus, which calls for revenue of \$144.5mm and OIBDA of \$3.96mm, we believe our positive outlook on the company is justified. We expect the performance in Media Pro Entertainment to remain strong at revenue of \$31.9mm, a 20.2% increase over last year's \$26.5mm, due to the increase in third-party revenues from licensing fees.
- Sustaining Advertising Spending.** CETV has been battling a slower-than-anticipated pick-up in advertising spending as the economies in those operating regions emerge from recession. The Czech market reportedly demonstrated modest "single-digit" growth in 3Q, while the recovery in Romania and Bulgaria likely remained subdued. We expect television advertising spending was modestly positive across all six of CETV's markets. This indicates that, despite negative sentiment, the pattern of spending from advertisers did not change as much as previously thought. In fact, the Czech television station, Prima, has indicated its intent to raise the price of advertising in 2012 due to increasing demand from clients. We believe that CETV is likely to get back on track as the overall economy recovers.
- Potential In Poland.** Time Warner Inc. continues to maintain a sizable stake of 34.4% in CETV. We believe that the recent decision of RTL Group SA to drop its bid on TVN SA, Poland's largest television network, gives Times Warner a significant advantage over the remaining competitor, Vivendi SA. Given CETV's ties with Time Warner, we believe this transaction, if successfully awarded to Time Warner, could provide synergy with CETV's assets.

Central European Media Enterprises Support Behind Revenue

	2008	2009	1Q10	2Q10	3Q10	4Q10	2010	1Q11	2Q11	3Q11E	4Q11E	2011E	2012E	2013E
Television Operations														
Net Revenue:														
Romania	\$274,627	\$176,501	\$36,547	\$43,563	\$29,065	\$48,241	\$157,416	\$34,354	\$47,015	\$31,756	\$48,644	\$161,769	\$162,123	\$175,093
Slovak Republic (Markiza TV)	132,691	107,356	18,090	24,720	16,049	31,532	90,391	19,090	29,845	17,784	31,878	98,596	102,361	113,621
Slovenia (POP TV and Kanal A)	80,697	66,710	13,823	18,147	9,280	23,549	64,799	14,519	22,799	10,996	25,194	73,508	77,728	85,501
Czech Republic	376,546	275,883	54,300	71,572	47,268	91,878	265,018	57,706	82,668	55,043	97,072	292,488	309,455	346,590
Croatia	54,653	49,139	11,725	14,785	8,181	16,659	51,350	12,511	19,979	9,119	17,310	58,919	61,628	66,559
Ukraine (Kino, CITI)	4,157	0	0	0	0	0	0	0	0	0	0	0	0	0
Ukraine (Studio 1+1 Group)	96,737	32,033	0	0	0	0	0	0	0	0	0	0	0	0
Bulgaria	1,262	3,520	940	17,794	13,706	29,313	61,753	19,337	26,662	15,015	29,875	90,889	95,699	110,054
Total Net Revenue	\$1,021,370	\$711,142	\$135,425	\$190,581	\$123,549	\$241,172	\$690,727	\$157,517	\$228,968	\$139,712	\$249,973	\$776,170	\$808,995	\$897,417
New Media			2,021	2,929	2,111	4,132	11,193	2,621	4,612	2,428	4,752	14,412	18,016	22,519
Romania (Media Pro Entertainment)		\$5,396	28,043	38,315	26,510	47,929	140,797	40,179	51,254	31,861	52,120	175,414	184,169	202,586
Elimination		(\$2,560)	(\$21,848)	(\$30,099)	(\$17,816)	(\$35,820)	(\$105,583)	(\$27,545)	(\$35,178)	(\$23,896)	(\$39,090)	(\$125,709)	(\$138,127)	(\$151,939)
Reportable Revenue	\$1,021,370	\$708,582	\$143,641	\$201,726	\$134,354	\$257,413	\$737,134	\$172,772	\$249,656	\$150,105	\$267,755	\$840,287	\$873,053	\$970,583
Net Revenue Growth														
Romania	27.5%	-35.7%	2.4%	-10.8%	-19.5%	-13.7%	-10.8%	-6.0%	7.9%	9.3%	0.8%	2.8%	0.2%	8.0%
Romania (Media Pro Entertainment)		NE	NE	NE	NE	788.2%	2509.3%	43.3%	33.8%	20.2%	8.7%	24.6%	5.0%	10.0%
Slovak Republic (Markiza TV)	20.0%	-19.1%	-12.1%	-12.4%	-16.9%	-19.7%	-15.8%	5.5%	20.7%	10.8%	1.1%	9.1%	3.8%	11.0%
Slovenia (POP TV and Kanal A)	15.9%	-17.3%	5.2%	-6.1%	-17.7%	2.5%	-2.9%	5.0%	25.6%	18.5%	7.0%	13.4%	5.7%	10.0%
Czech Republic	34.8%	-26.7%	-3.3%	0.0%	-12.1%	-2.7%	-3.9%	6.3%	15.5%	16.4%	5.7%	10.4%	5.8%	12.0%
Croatia	46.9%	-10.1%	14.9%	4.7%	19.1%	-7.1%	4.5%	6.7%	35.1%	11.5%	3.9%	14.7%	4.6%	8.0%
Ukraine (Kino, CITI)	56.9%	NM	0.0%	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Ukraine (Studio 1+1 Group)	-22.8%	-66.9%	-100.0%	-100.0%	-100.0%	-25.0%	NM	NM	NM	NM	NM	NM	NM	NM
Bulgaria	NM	NM	57.7%	NM	NM	NM	1654.3%	1957.1%	49.8%	9.6%	1.9%	47.2%	5.3%	15.0%
New Media								29.7%	57.5%	15.0%	15.0%	28.8%	25.0%	25.0%
Total Net Revenue	21.6%	-30.6%	1.7%	8.3%	-0.1%	4.3%	4.0%	20.3%	23.8%	11.7%	4.0%	14.0%	3.9%	11.2%
Segment OBIDA:														
Romania	\$111,784	\$38,510	\$4,529	\$10,741	\$4,319	\$6,408	\$25,997	\$3,449	\$9,297	\$4,763	\$9,729	\$27,238	\$34,046	\$38,520
Slovak Republic (Markiza TV)	50,226	13,880	(3,305)	2,192	(3,842)	3,954	(1,001)	(2,506)	5,737	(1,778)	4,782	6,234	10,236	18,179
Slovenia (POP TV and Kanal A)	25,416	17,822	3,084	6,422	(657)	9,578	18,427	3,214	8,553	0	10,581	22,348	27,205	32,490
Czech Republic	208,654	128,463	22,184	38,508	13,755	48,371	122,818	22,668	43,846	16,513	53,390	136,416	154,728	183,693
Croatia	(5,414)	223	881	2,047	(1,508)	948	2,368	(332)	3,153	(912)	2,077	3,986	7,704	11,315
Ukraine (Kino, CITI)	(3,721)	0	0	0	0	0	0	0	0	0	0	0	0	0
Ukraine (Studio 1+1 Group)	(32,944)	(40,471)	0	0	0	0	0	0	0	0	0	0	0	0
Bulgaria	(10,185)	(44,774)	(9,070)	1,261	(3,312)	9,049	(2,072)	162	5,768	(1,502)	9,859	14,287	11,962	16,508
Divisional Overheads			(486)	(301)	(530)	(806)	(2,123)	(507)	(238)	(500)	(500)	(1,745)	(2,000)	(2,000)
Total Broadcast			17,817	60,870	8,225	77,502	164,414	26,148	76,116	16,584	89,917	208,766	243,880	298,706
New Media			(3,384)	(1,423)	(1,562)	(173)	(6,542)	(1,601)	(489)	(1,300)	(1,500)	(4,890)	(7,000)	(2,500)
Romania (Media Pro Entertainment)		(\$266)	(2,033)	155	(2,185)	1,058	(3,005)	724	761	(1,000)	2,500	2,985	5,525	10,129
Central			(10,812)	(12,055)	(8,256)	(12,939)	(44,062)	(9,846)	(12,397)	(9,000)	(12,000)	(43,243)	(45,000)	(46,000)
Eliminations			(747)	(1,354)	(709)	(672)	(3,482)	(1,179)	(1,298)	(1,000)	(4,477)	(3,600)	(4,000)	(4,000)
Total OBIDA	\$343,816	\$113,387	\$841	\$46,193	(\$4,487)	\$64,776	\$107,323	\$14,246	\$62,693	\$4,284	\$77,917	\$159,141	\$193,805	\$256,335
Yr/Yr Growth	7.5%	-67.0%	-95.7%	8.8%	-38.1%	10.4%	-5.3%	1593.9%	35.7%	-195.5%	20.3%	48.3%	21.8%	32.3%
OBIDA Margins														
Romania	40.7%	21.8%	12.4%	24.7%	14.9%	13.3%	16.5%	10.0%	19.8%	15.0%	20.0%	16.8%	21.0%	22.0%
Romania (Media Pro Entertainment)		NM	NM	0.4%	-8.2%	2.2%	-2.1%	NM	1.5%	-3.1%	4.8%	1.7%	3.0%	5.0%
Slovak Republic (Markiza TV)	37.9%	12.9%	-18.3%	8.9%	-23.9%	12.5%	-1.1%	-13.1%	19.2%	-10.0%	15.0%	6.3%	10.0%	16.0%
Slovenia (POP TV and Kanal A)	31.5%	26.7%	22.3%	35.4%	-7.1%	40.7%	28.4%	22.1%	37.5%	0.0%	42.0%	30.4%	35.0%	38.0%
Czech Republic	55.4%	46.6%	40.9%	53.8%	29.1%	52.6%	46.3%	39.3%	53.0%	30.0%	55.0%	46.6%	50.0%	53.0%
Croatia	-9.9%	0.5%	7.5%	13.8%	-18.4%	5.7%	4.6%	-2.7%	15.8%	-10.0%	12.0%	6.8%	12.5%	17.0%
Ukraine (Kino, CITI)	-89.5%	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Ukraine (Studio 1+1 Group)	-34.1%	-126.3%	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Bulgaria	NM	NM	NM	NM	NM	30.9%	NM	0.8%	21.6%	-10.0%	33.0%	15.7%	12.5%	15.0%
Total OBIDA Margins	33.7%	15.9%	0.6%	22.9%	-3.3%	25.2%	14.6%	8.2%	25.1%	2.9%	29.1%	18.9%	22.2%	26.4%

Source: Company Reports; Morgan Joseph TriArtisan LLC estimates

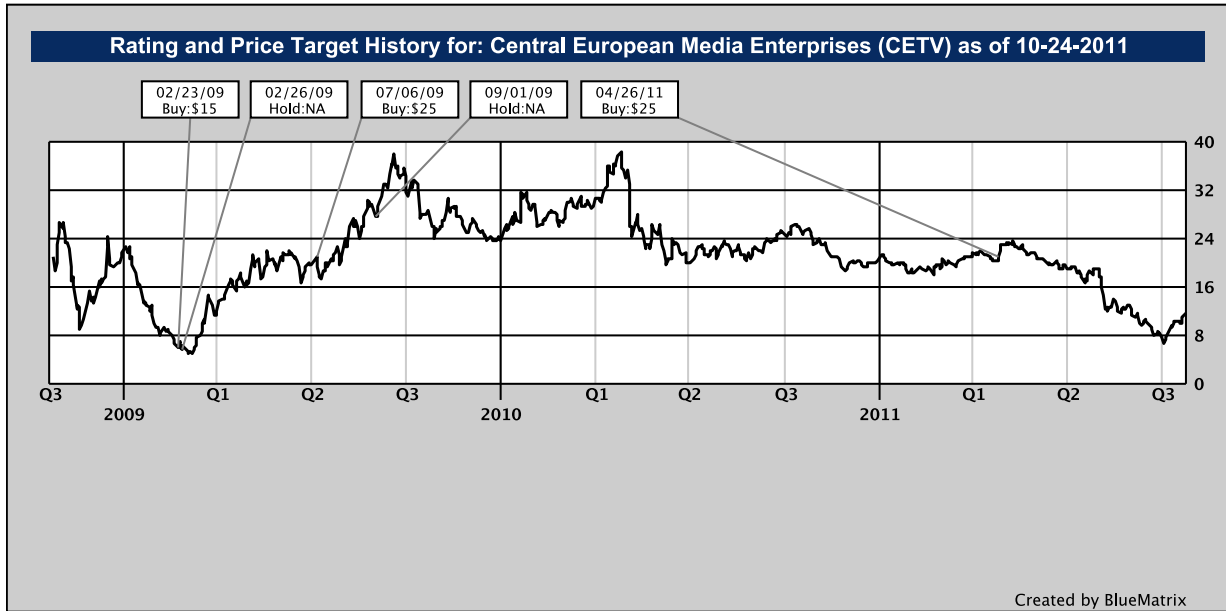
Central European Media Enterprises - Income Statement

US\$ 000's except share and per share data

	2009	2009PF	1Q10	2Q10	3Q10	4Q10	2010	1Q11	2Q11	3Q11E	4Q11E	2011E	2012E	2013E
Total Revenues	\$711,142	\$713,978	\$143,641	\$201,726	\$134,354	\$257,413	\$737,134	\$172,772	\$249,656	\$150,105	\$267,755	\$840,287	\$873,053	\$970,583
Yr/Yr Change in \$ Revenue	-30.4%	-30.0%	1.7%	8.3%	-0.1%	4.3%	3.7%	20.3%	23.8%	11.7%	4.0%	14.0%	3.9%	11.2%
Qtr/Qtr Change in \$ Revenue	NA	NA	-41.8%	40.4%	-33.4%	91.6%	NA	-32.9%	44.5%	-39.9%	78.4%	NA	NA	NA
Station Expenses														
Other Operating costs and Expenses	\$134,098	\$134,095	\$27,280	\$27,496	\$29,050	\$39,513	\$123,339	\$33,655	\$34,536	\$33,734	\$50,590	\$152,515	\$192,445	\$202,422
Amortization of Programming Rights	382,656	389,900	87,786	99,166	81,658	121,693	390,303	96,031	122,730	84,837	109,047	412,645	368,235	378,474
<i>Percentage of Revenues</i>	53.8%	54.6%	61.1%	49.2%	60.8%	47.3%	52.9%	55.6%	49.2%	56.5%	40.7%	49.1%	42.2%	39.0%
Depr. of station fixed assets and other intang	53,651	53,651	14,114	13,075	13,341	13,885	54,415	13,417	14,493	13,500	13,500	54,910	50,000	50,000
Total Station Op. Costs and Exp.	\$570,405	\$577,646	\$129,180	\$139,737	\$124,049	\$175,091	\$568,057	\$143,103	\$171,759	\$132,070	\$173,137	\$620,069	\$610,680	\$630,896
<i>% of Total Revenue</i>	80.2%	80.9%	89.9%	69.3%	92.3%	68.0%	77.1%	82.8%	68.8%	88.0%	64.7%	73.8%	69.9%	65.0%
SG&A Exp.	78,880	71,639	16,060	16,337	18,498	17,986	68,881	18,340	16,635	18,250	18,200	71,425	73,568	87,352
<i>% of Total Revenue</i>	11.1%	10.0%	11.2%	8.1%	13.8%	7.3%	9.3%	10.6%	6.7%	12.2%	6.8%	9.0%	8.4%	9.0%
Corporate Expenses:														
Corporate Operating costs and expenses	38,286	38,286	10,812	12,055	8,256	12,939	44,062	9,846	12,397	9,000	12,000	43,243	45,000	46,000
Net Arbitration related proceeds/(costs)	0	81,843	0	0	0	397	397	0	0	0	0	0	0	0
Stock based compensation	6,147	6,147	1,573	1,600	1,900	1,800	6,873	1,521	1,583	1,600	1,600	6,304	6,400	6,400
Amortization of license costs/Goodwill	21,597	21,597	5,149	6,545	6,996	7,297	25,987	7,627	7,809	7,000	7,000	29,436	30,000	31,500
Operating Income	(\$4,173)	(\$83,180)	(\$19,133)	\$25,452	(\$25,345)	\$41,903	\$22,877	(\$7,665)	\$39,473	(\$17,815)	\$55,817	\$69,810	\$107,405	\$168,435
<i>% of Revenues</i>	<i>NM</i>	<i>NE</i>	<i>NM</i>	<i>12.6%</i>	<i>NM</i>	<i>16.3%</i>	<i>3.1%</i>	<i>NM</i>	<i>15.8%</i>	<i>NM</i>	<i>20.8%</i>	<i>8.3%</i>	<i>12.3%</i>	<i>17.4%</i>
Interest (Expense) Income	(112,855)	(112,855)	(30,875)	(30,645)	(31,046)	(38,701)	(131,267)	(54,911)	(37,120)	(31,000)	(31,000)	(154,031)	(124,000)	(124,000)
Equity in income/loss of affiliate	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Income (expense)	3,192	85,297	5,631	(45,031)	60,781	(24,890)	(3,509)	42,513	5,177	0	0	47,690	0	0
Pretax Income	(\$113,836)	(\$110,738)	(\$44,377)	(\$50,224)	\$4,390	(\$21,688)	(\$111,899)	(\$20,063)	\$7,530	(\$48,815)	\$24,817	(\$36,531)	(\$16,595)	\$44,435
Pretax Income Margin	-16.0%	NM	-30.9%	-24.9%	NM	-8.4%	-15.2%	-11.6%	3.0%	NM	9.3%	-4.3%	-1.9%	4.6%
Income Tax	3,193	3,193	2,391	(2,689)	(973)	(3,754)	(5,025)	(932)	(6,718)	19,954	1,546	13,849	35,149	19,891
Net Income Before Minority Interest	(\$110,643)	(\$107,545)	(\$41,986)	(\$52,913)	\$3,417	(\$25,442)	(\$116,924)	(\$20,995)	\$812	(\$28,862)	\$26,363	(\$22,681)	\$18,554	\$64,326
Minority Interest in (Loss)/Gain	10,650.0	10,650.0	(308.0)	218,082.0	(1.0)	(674.0)	217,099.0	(119.0)	156.0	(2,000.0)	10,000.0	8,037.0	14,000.0	14,000.0
Net income(loss)	(\$99,993)	(\$96,895)	(\$42,294)	\$165,169	\$3,416	(\$26,116)	\$100,175	(\$21,114)	\$968	(\$30,862)	\$36,363	(\$14,644)	\$32,554	\$78,326
EPS (weighted average) (\$)	(\$1.91)	(\$1.78)	(\$0.67)	\$2.59	\$0.05	(\$0.41)	\$1.56	(\$0.33)	\$0.02	(\$0.48)	\$0.56	(\$0.23)	\$0.50	\$1.20
EPS (fully diluted) (\$)	(\$1.91)	(\$1.78)	(\$0.67)	\$2.59	\$0.05	(\$0.41)	\$1.56	(\$0.33)	\$0.02	(\$0.48)	\$0.56	(\$0.23)	\$0.50	\$1.20
EPS Growth	-68.3%		NM	-346.7%	-89.4%	17.1%	-126.3%	NM	-101.1%	-28.4%	-78.4%	-114.5%	-251.6%	5891.1%
Shares (weighted average)	54,271	54,344	63,537	63,871	64,337	64,358	64,026	64,369	64,386	64,388	64,390	64,383	65,026	65,369
Shares (fully diluted)	54,282	54,344	63,537	63,871	64,497	64,358	64,066	64,369	64,501	64,503	64,505	64,470	65,066	65,369

Source: Company Reports & Morgan Joseph TriArtisan LLC estimates

Required Disclosures



Price Target

Our price target is \$25.

Valuation Methodology

Our \$25 price target is based on a multiple of 11x our 2012E TEV/EBITDA estimates.

Risk Factors

- **Emerging-market volatility and currency risk.** While several of CME's countries have adopted the euro, others have not—so there is some currency risk. Additionally, many of these markets went through a very difficult recession and have not rebounded fully.
- **Potential for a bad acquisition.** One of the company's key strategies is to pursue acquisitions of broadcasters in Eastern Europe. An ill-advised acquisition would burn capital and could waste management resources.
- **Two shareholders effectively control the company.** Chairman Ronald Lauder and TimeWarner own roughly 31% of the equity but have 70% of the vote

I, David B. Kestenbaum, the author of this research report, certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers, and no part of my compensation was, is, or will be directly or indirectly tied to the specific recommendations or views contained in this research report.

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Morgan Joseph TriArtisan LLC intends to seek or expects to receive compensation for investment banking services from the subject company within the next three months.

Rating	Investment Banking Services/Past 12 Mos.	
	Percent	Percent
BUY [B]	68.80	11.63
HOLD [H]	31.20	5.13
SELL [S]	0.00	0.00

Meaning of Ratings

- A) A Buy rating is assigned when we do not believe the stock price adequately reflects a company's prospects over 12-18 months.
- B) A Hold rating is assigned when we believe the stock price adequately reflects a company's prospects over 12-18 months.
- C) A Sell rating is assigned when we believe the stock price more than adequately reflects a company's prospects over 12-18 months.

Other Disclosures

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