CEE media sector to witness two-speed recovery in 2H 2011

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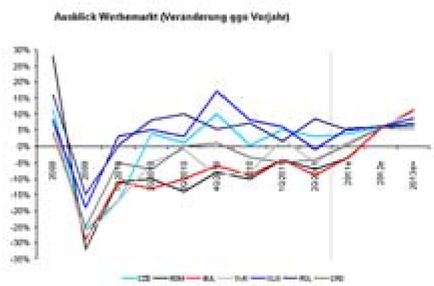
Central and Eastern European region’s convergence story is set to continue

Internet and TV report growing advertising market shares; biggest ad decline in print media

Erste Group analysts prefer companies with strong balance-sheet and high cash generation ability – Agora, Cyfrowy Polsat and CME to Buy, TVN down to Accumulate

“Looking at the CEE advertising market, the worst seems to be over, but uncertainties persist”, says Václav Kmínek, CEE media equity analyst at Erste Group. “We expect a continuation of the ad market recovery in Poland, Slovenia and the Czech Republic, while markets in South-East Europe should experience a slight decrease in 2011 followed by a slow recovery in 2012. We do not envisage a spill over of the negative market sentiment to the real economy; nevertheless, we have significantly lowered our expectations of ad market growth in CEE in the years to come. We are bullish towards the Central Eastern region, while South-East Europe is still fragile”, comments Kmínek.



Source: CME, TVN, Starlink, Eurostat, Erste Group estimates

The media sector is one of the most pro-cyclical sectors and advertisers’ budgets are highly correlated with the current consumer situation. Under the current environment Erste Group analysts prefer companies with a strong balance sheet, and high cash generation ability.

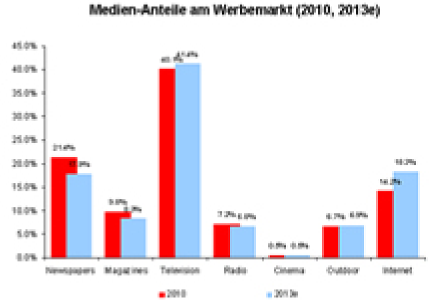
Unemployment and retail sales as key drivers for advertising budgets

The unemployment rate in CEE already peaked in 2010, resulting in a subsequently better consumer situation; this should be translated into ad market growth in the quarters to come. CEE economies are growing at a faster pace than Western European in terms of real GDP, which positively impacts the ad markets. All CEE countries have advertising spending below 1% of GDP, indicating that the convergence story is set to continue. Based on the increasing GDP per capita, advertising per capita is expected to converge in absolute terms towards Western European levels as well.

“Unemployment and retail sales are the key movers of advertiser budgets. Central European ad markets are starting to post solid figures; nevertheless South-East Europe seems to be still weak. The Polish, Czech and Slovenian ad markets are heading back to pre-crisis levels, while a full recovery in CEE will be seen within the upcoming five years”, predicts Kmínek.

Internet to take the biggest slice of the ad spend cake

The long-term trend of newspaper advertising budget declines seems to be continuing, as it does for magazines. The likely winner of the switch is the Internet, followed by TV. The recent economic downturn largely confirmed the long-term trend of newspaper advertisers moving toward the Internet. “Circulation is still under pressure, but the speed of the decrease is narrowing, indicating that the newspaper market is close to the bottom (in terms of circulation). On the other hand, we do not see any triggers that would move circulation revenue back to a significant growth pace”, says Kminek. In general, it is possible to expect stabilization at the current low levels, while the shift towards the Internet will continue.



Source: ZenithOptimedia 2011 July

Outlook

outlook

Erste Group analysts see the ad spending recovery to be closely correlated with GDP recovery. According to the analysts, the real recovery should occur in 2012, as consumer confidence and spending should advance. In comparison with the Western European markets, CEE economies are growing at a faster pace in terms of real GDP Outlook for 2011 by Erste Group Research: CEE: 3.2% and Eurozone: 1.8%), which will have a positive impact on ad markets. With the growing GDP per capita, advertising per capita is expected to converge in absolute terms towards Western European levels. Looking at the ad spend by media, the Internet is the expected winner of the ad redistribution, followed by TV.

Agora as frontrunner in company ranking

Erste Group's analysts see Agora as a **Buy**, due to its healthy balance sheet and strong cash-flow ability. **Agora** has a strong balance sheet, which is the highest advantage to its peers given the current market environment (cash positive at around PLN 109mn at 2011 YE). Moreover, the most valuable fixed asset is Agora's headquarters in Warsaw with the estimated market value of the building standing at approx. PLN 400m (more than a half of current Agora's mcap). On the other hand, despite the acquisition of Helios, Agora is mainly exposed to the 'least' attractive advertising segment, newspapers.

Buy recommendation on **CME**. CME seems to be a risky play, nevertheless the current share price seems to be attractive as its long-term prospects are solid and the recent ban on advertising on Czech public TV will push its figures up.

Erste Group analysts upgrade **Cyfrowy Polsat** from Accumulate to **Buy**. The Cyfrowy investment story changed dramatically after the acquisition of Telewizja Polsat. The TV Polsat acquisition is a bet on a TV ad market in Poland. On top of that, it seems that Cyfrowy is better able to reduce debt compared to an almost similar company in Poland, TVN.

The analysts reduce their recommendation for **TVN** from Buy to **Accumulate**. TVN is waiting for the new majority owner. The major issue during over the last couple of months has been the sale process of the 56% stake in the company. Among the potential buyers the most likely one is Time Warner, which already owns more than 30% of the CEE leading broadcasting company CETV.

Overview of target price and recommendations

	Recommendation		12M target price			Date of last report
Company name	Now	Before	Now	Before	Change	
Agora (PLN)	Buy	Hold	20.0	27.5	-27.3%	17-Dec-10
CME (USD)	Buy	Accumulate	15.0	23.5	-36.2%	17-Dec-10
Cyfrowy Polsat (PLN)	Buy	Accumulate	19.0	19.0	0.0%	17-Dec-10
TVN (PLN)	Accumulate	Buy	16.0	21.0	-23.8%	17-Dec-10

Source: Erste Group Research

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