

RosBusinessConsulting

**COMPANY
NOTE**

SELL

Upside: -8.2 %

Target Price: US\$9.48

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Stock data

Ticker	RBCI	MCap (US\$ mn)	1,231
Shares Ords	119,260,000	Free Float, %	44%
Shares Pref	-	Free Float (US\$ mn)	525
Bid Ords (US\$)	10	Offer Ords (US\$)	10.65
Bid Prefs (US\$)	-	Offer Prefs (US\$)	-

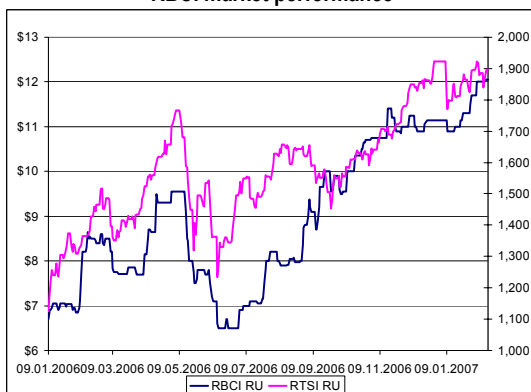
Market performance

		1 month	6 months
Absolute	Ords	-12.5%	20%
Relative to RTSI	Ords	-8.8%	3%
Price range (US\$)			
High	Ords	12.1	12.1
Low		10.5	8.9

Financials, 2006E

Revenue (US\$ mn)	191.4	P/S	6.43
EBITDA (US\$ mn)	56.1	EV/EBITDA	21.4
Net Income (US\$ mn)	32.3	P/E	38.1

RBCI market performance



Source: RTS, Sovlink Securities

Expensive exposure to media

- RosBusinessConsulting (RBC) is the leading company in Russia's mass media and internet advertising industry. Founded in 1993, the company made a quantum leap in 2006, which turned out to be an explosive year for the Russian market.

- During 2005-06, the Russian advertising market developed at quite a rapid pace, with a CAGR of approximately 28%-29%. The boom in internet advertising has led to dramatic growth in revenues of the leading companies in the internet advertising sector, such as Yandex, Rambler, Mail.ru and RBC. Nevertheless, we would like to point out that RBC has not taken part in the most rewarding part of this market – namely, PPC¹ (pay per click) advertising, the fastest growing segment in the Russian internet advertising sector.

- RBC's strategy appears to be well-founded – buying exciting start-ups in different sectors of interest for internet users (business, cars, luxury goods, etc.) and consolidating them under the strong RBC brand. In the beginning of February, RBC announced that it would enter the entertainment market (online gaming, entertainment sites, dating services, blogs and other projects). We see this as a positive decision, which could, in the future, considerably improve the company's cash flow. However, we expect the company's net income to be negative in 2007.

- In September 2006, Mostelecom and RBC TV reached an agreement, which allows RBC TV's programmes to be distributed through the largest cable television network in Moscow. However, we do not expect this agreement to have a significant effect on the company, because of RBC TV's specific audience.

- In January, RBC's shareholders voted to transfer all of RBC's IT assets to Armada, its fully-owned subsidiary. RBC will spin-off its IT business and distribute 95% of Armada's shares to the current shareholders of RBC via a special buyback scheme. As of March 9, RBC's shares started trading without Armada. At the time of the spin-off, Armada's share price was approximately \$10.5. We expect Armada's price to vary within the \$9.3–12.1 price range.

- Our DCF model indicates a fair value of \$10.36 for RBC's shares (including its IT assets). We have also included a comparative table, which implies that RBC's shares are extremely over-priced in comparison to other internet and TV companies. However, we believe that establishing the company's fair value, based on the potential of the internet advertising market in Russia and its future cash flows would be a more appropriate method than applying comparative company valuations. Taking into consideration the spin-off of its IT business, we issue a **SELL** recommendation on RBC's shares with a target price of \$9.48, 8.2% below the current mid-market price.

¹ Pay per click (PPC) is an advertising technique used on websites, advertising networks, and search engines.

Business description

Media

Information agency

RBC's media business was created in 1993 as an information agency for RosBusinessConsulting, specialising in financial and economic news. Today, RBC continues to develop this branch of its business and issues approximately 1,300 different news and analytical materials per day covering all segments of the economy, as well as the activities of top Russian and foreign corporations, financial organizations and government institutions. Also, according to RBC's information agency, the company is actively developing a market research branch.

In March 2005, RBC entered the fairly large and dynamically growing Ukrainian media market by launching its information agency RBC Ukraine (www.rbc.ua). RBC Ukraine was established in order to provide the local audience with up-to-date news on economic and political life in Ukraine.

Print media

Since 2005, RBC has published a monthly magazine CNews, focusing on high-tech markets. This magazine (with 25,000 copies printed monthly), reports on highlights in the high-tech industry. The CNews magazine is available on the website www.cnews.ru, and is distributed by subscription. The magazine's business model is based on advertising revenues.

In March 2006, RBC launched its monthly business magazine RBC, of which 75,000 copies are printed monthly. This publication primarily targets business owners and top managers, as well as a broader audience interested in the latest trends and events in Russian and international business. The magazine is available in stores and by subscription throughout the Russian Federation. Its main sources of profit are revenues from advertising and subscriptions.

In September, RBC acquired a controlling stake in the EDI S Press Holding (Salon-Press and Luxury Media publishing houses in Russia) and in Formax Publications (Ukraine). Salon-Press, is one of the leaders in the rapidly growing market of architectural and design magazines. Its flagship magazines: Salon Interior, Idei Vashego Doma and Interior Digest – are supported by a number of online publications such as salon.ru, ivd.ru, inmag.ru and interior-digest.ru. Luxury Media also operates in the luxury press segment and publishes the Four Seasons, In Moscow and Mercedes magazines. According to RBC, the EDI S Press Holding had revenues in excess of \$20mn last year and the purchase price was 1.9 times sales – RBC's 60% stake cost approximately \$23 mn. RBC also has an option to buy the remaining 40% by the end of 2008.

In October 2006, another new project was launched – the daily business newspaper RBCDaily based on the analytical online business website www.rbcdaily.ru. The newspaper was created in cooperation with Handelsblatt – one of the most popular daily newspapers in Germany. By issuing RBCDaily, the holding is implementing its strategy of duplicating its popular online resources by issuing printed versions. This could turn out to be an expedient move, because people who trust RBC's internet news sites, such as www.rbc.ru, www.autonews.ru, and www.quote.ru could well choose to buy RBC's printed publications.

In its new strategy, RBC sees print media products as another channel for distributing its content using the strong RBC brand and demand for advertising in magazines targeting high-income audiences.

Marketing events

Hosting marketing events is another clear direction in RBC's business development. The company hosts international business conferences and prestigious national awards such as The Person of the Year, The

Company of the Year, and THE BEST BRAND/EFFIE. RBC's strong brand name is very attractive for advertisers who want to use RBC's promotional tools.

In developing this business, RBC is following the best strategy – simply buying the rights to existing business contests. Narodnaya Marka is the most recent event purchased by the company. It is a national accolade granted annually – the first Narodnaya Marka award was awarded in 1998 – to producers of brand goods. It is one of the most important brand-building awards on the Russian market. Management's thoughts on the development of marketing communications were extremely clear: "If control over such projects is given over to us, this will result in lower costs, enhance the public recognition of the awards and their status, and draw greater attention from advertisers and sponsors." We believe that their assessment is correct.

Internet

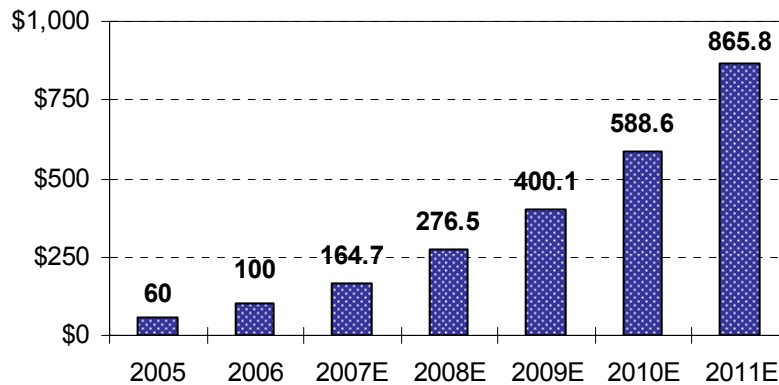
RBC is one of the most attractive advertising platforms on the Russian Internet. The company owns Russia's leading financial and economic portal, www.rbc.ru, along with other business-oriented internet platforms, specialized online resources and websites. Online RBC businesses include the RBC Daily analytical business newspaper (www.rbcdaily.ru); the QuoteTotal financial and analytical portal (www.quote.ru); internet portals dedicated to high-tech news (www.cnews.ru), the automotive market (www.autonews.ru), tourism and travel (www.turist.ru), an educational online resource for students (www.5ballov.ru), a daily electronic newspaper (www.utro.ru), a free e-mail service (www.pochta.ru) and others. RBC currently attracts more than 1.6 mn unique visitors per day and 14 mn per month.

In February 2007, RBC announced that it is going to invest up to \$120 mn in the strategic expansion of its general interest internet sector in Russia, the former republics of the Soviet Union and Eastern Europe. The majority of this will be spent on significant upfront investments in start-up projects mainly in 2007. The company will also continue its successful acquisition strategy. RBC will focus on the most modern online media sites, such as online gaming and entertainment sites, dating services, blogs, social networks, email, photo and video sharing services and other projects. Of the total \$120 mn funding available for expanding its internet sector, the company will allocate approximately \$10 mn as venture capital to finance innovative technologies in the online media sector.

RBC will establish a new unit, Media Mir Group, to run its entertainment projects, and it expects revenues to reach \$70-100 mn within three years, with advertising contributing 75% and services 25%. RBC Chairman German Kaplun said a positive net income number is harder to forecast. "We expect a period of heavy investment, which will significantly weigh on our financial results for about twelve months, but will benefit the company in the following years by allowing it to deliver excellent returns," he said. According to Dmitry Belik, RBC Vice Chairman of Finance, RBC has a strong cash position with approximately \$100 mn available to spend on new internet projects and acquisitions as necessary.

In our opinion, RBC's brand is respected, trusted and recognisable. It also has a strong position amongst domestic information portals. We like the management's policy of buying new start-ups and combining them under the strong RBC brand. People start trusting these new thematic portals owing to their confidence in RBC. Thus, new portals receive more visitors, and RBC receives higher advertising revenues. RBC's internet projects benefit the company due to the competent management of these projects. New start-ups are bought and offline projects started. Advertising revenues increase due to the purchase and operation of new internet start-ups under the strong RBC brand. Revenue growth is also supported by constant price rises due to the high demand for RBC's media capacities. The company's strong brand is equally effective in adding value to its publications.

Russian Internet Advertising \$ mn



Source: Russian Association of Communication Agencies, Sovlink estimates

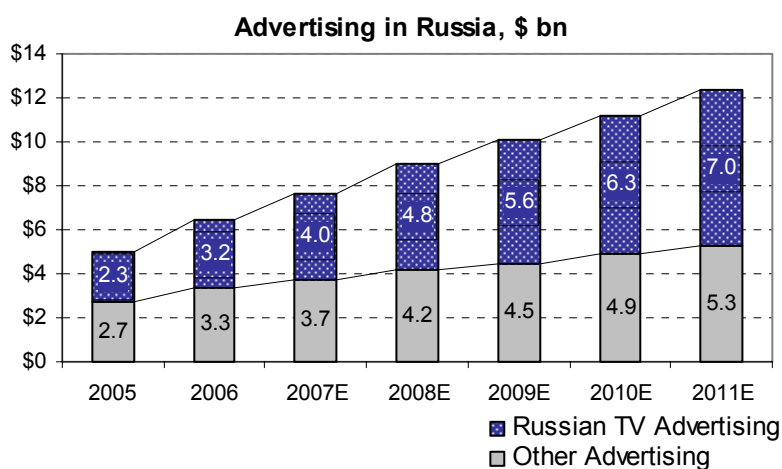
Media and internet advertising forecasts for Russia in 2007 look bright. Nevertheless, we must point out a significant disadvantage of this rapidly developing company – RBC does not provide PPC services. In developed countries, such as Britain, the share of the PPC advertisement sector is close to 59% of the entire internet advertisement market. According to MindShare Interaction, the whole internet advertising market (including PPC) in Russia is likely to reach \$300 mn by the end of 2007. We believe that RBC needs to start developing context-based products. At the moment none of its sites uses such advertising.

TV

RBC started its TV business in 2003. In 2005, RBC's TV business managed to break even. In September 2006, RBC signed an agreement with Mostelecom, which enables viewers to watch RBC TV in all areas where the Moscow city cable television network has been installed. RBC paid a fairly high price of approximately \$45-50 mn (payable over the next three years) for gaining access to Mostelecom's 3 mn subscribers.

In order to broaden its audience and move closer to a mass-market product, RBC is currently considering launching an entertainment television channel. This may also help it to better capitalise on its newly established relationship with Mostelecom and enhance the return on its investment in Mostelecom's TV distribution network. At any rate, we believe it is too early to evaluate RBC's potential in the TV entertainment segment where it has little experience and a very limited track record.

TV advertising remains the largest segment of the Russian media market. According to the Russian Association of Communication Agencies (RACA), in 2006 it amounted to \$3,160 mn; i.e. 48.7% of the whole media market. Its growth rate stayed at the same level as in 2005 (35%-36%), but outpaced the market trend in general. RACA reported that the share of TV advertising would further grow to almost 57% of the total media market by 2010. We believe that RBC TV is going to keep its market share through 2007-11.



Source: Russian Association of Communication Agencies, Sovlink estimates

IT business

RBC's software and IT services' portfolio includes both custom-made and off-the-shelf software solutions (corporate portals, content management, leasing management, systems for monitoring and analyzing the mass media etc.) for various business sectors, system integration services as part of the IT consulting business, and offshore programming.

RBC has gained extensive experience in implementing and tailoring ERP and CRM solutions, document flow and workflow management, e-commerce systems and other business applications, to clients' needs.

Owing to the recent acquisition of Gelios and ASKO in 2006, we expect the company's IT division's revenues to be approximately \$71 mn. The company intends to increase the economic efficiency of the firms acquired by actively using cross-selling opportunities and cost synergies with its current IT operations, whereas the media part of RBC's business will offer a promotional platform.

However, of greater interest is the fact that RBC is spinning off its IT business and focusing on expanding its media business. In January 2007, RBC's shareholders voted to transfer all of RBC's IT assets to its fully owned subsidiary – Armada (10 mn ordinary shares). The company plans to distribute 95% of Armada's shares amongst RBC's current shareholders (record date – March 7) via a special buyback scheme. The remaining 5% of the shares are expected to be reserved for an option plan for Armada's management. RBC's shareholders, who are entitled to Armada shares, will be required to buy them. Previously, RBC had stated that its shareholders would receive Armada shares for free; i.e. RBC would distribute its 2006 dividends in the form of Armada shares. The purchase price of Armada shares will be R6.69, or \$0.26, per share.

As of March 9, RBC's shares started trading without Armada. The buyback should result in the redistribution of 9.5 mn shares of Armada to RBC's existing shareholders. In this transaction, one Armada share is worth 12.5537 RBC shares. Taking into consideration RBC's share price of \$11.05 before Armada was split off, the IT business adds \$0.88 to the cost of each RBC share ($\$11.05/12.5537$), so one Armada share is worth \$10.5 (which values the whole company at \$105 mn). RBC's management believes that the IT business will generate about \$10 mn in EBITDA in 2006. We also presume further EBITDA growth in 2007. Taking the average EV/EBITDA multiple for international IT companies of 9.3, we value Armada's business at \$93–121 mn (\$9.3–12.1 per share).

Given that RBC shareholders can buy Armada shares at a significant discount to their fair value, we would recommend participating in the share issue. Applications are accepted through April 23.

International IT companies

	M.Cap, \$ mn	P/E	EV/EBITDA	P/S
Logica CMG	5,081	25.3	9.5	0.9
Anite Group	554	15.5	7.3	1.2
Computerland	263	20.5	10	0.9
Xansa	487	15.7	11	0.9
Axon Group	585	22.8	7.9	1.1
Softbank	414	19.6	10.9	1.4
Prokom Software SA	565	16.7	7.1	1.0
Polaris Software Lab	284	14.5	8.0	1.1
Infotech Enterprises Limited	245	17.8	11.9	2.3
Emax SA	135	18.7	9.7	1.0
Average:		18.7	9.3	1.2

Source: Bloomberg, Sovlink estimates

Financial results, \$ mn

	2005	2006E	2007E
Sales	109.4	191.3	263.8
EBITDA	31.6	56.1	78.48
Net income	20.8	32.3	47.1
EBITDA margin, %	29%	29%	30%
Net margin, %	19%	17%	18%

Source: company data, Sovlink estimates

We expect that the company achieved high EBITDA and net margins in 2006. However, the company's substantial internet investment plan could lead to negative cash flow in 2007.

Valuation

Our DCF-model was based on forecast consolidated IFRS statements. We expect RBC to maintain its EBITDA margin of 30% for 2007-11. We are hopeful that the management's promises materialise and RBC achieves our revenue forecast for 2007-11. We expect the company's net margin to increase from 18% in 2007 to 22% in 2011. Please note that we expect the company's cash flow to be almost zero or negative by the end of 2007, due to the significant capital investments that will be made in developing its internet business. We believe that growth in the internet sector should outperform other sectors in terms of revenues by 2010.

RBC's sales forecasts, \$ mn

	2005	2006E	2007E	2008E	2009E	2010E	2011E
Revenues	111.3	191.39	263.81	347.69	412.9	478.22	585.83
Internet Media	51.9	80.5	115.3	165.9	200.1	235.4	303
TV	29.6	34.5	47.3	62.1	71.4	74.8	84.2
Publishing	0	4.95	14.98	16.1	16.8	17.4	18.4
IT services	29.8	71.4	86.2	103.6	124.7	150.5	180.2

Source: company data, Sovlink estimates

DCF Summary, \$ mn

	2005	2006E	2007E	2008E	2009E	2010E	2011E
Revenues	109.40	191.39	263.81	347.69	412.90	478.22	585.83
Gross profit	36.81	66.99	94.97	128.64	156.90	186.50	234.33
Non-COGS	15.81	27.66	38.12	50.24	59.66	69.10	84.65
EBITDA	31.61	56.10	78.48	102.74	122.01	143.23	177.80
Amortization & depreciation	9.52	16.77	21.63	24.34	24.77	25.82	28.12
EBIT	22.10	39.33	56.85	78.40	97.24	117.40	149.68
Interest payments	1.06	1.25	1.50	1.50	1.50	1.25	1.25
NI	20.80	32.37	47.05	65.37	81.38	98.73	126.17
EBITDA margin, %	29	29	30	30	30	30	30
Net margin, %	19	17	18	19	20	21	22
NI	20.80	32.37	47.05	65.37	81.38	98.73	126.17
Amortization & depreciation	9.52	16.77	21.63	24.34	24.77	25.82	28.12
Capex	17.70	38.80	71.80	78.10	24.40	25.10	25.20
Change in working capital	-0.30	4.10	3.70	2.10	3.10	2.90	2.30
FCFF	13.02	14.43	0.58	13.71	84.85	102.35	131.39
FCFF discounted		12.89	0.46	9.76	53.92	58.08	66.56

Source: company data, Sovlink estimates

WACC	12%
Terminal growth rate	5%
Forecast NPV	201.67
NPV of Terminal Value	998.46
Fair EV, \$ mn	1,200.13
Net Debt, \$ mn	(35)
Fair MCAP, \$ mn	1,235.13
Number of shares	119,260,000
Fair value, \$	10.36

Source: Sovlink estimates

We have taken into account management's announcement of investing \$120 mn in internet entertainment projects instead of the \$20 mn originally planned for 2007–08; in our DCF model we consider it in the capex indicator for 2007–08 and in revenue growth through 2008-10.

After our valuation, we subtracted the cost of the IT business from the original valuation. So, the fair value of RBC's shares should be decreased by \$0.88, to \$9.48.

In our opinion, the internet advertising and TV sectors add value to RBC's shares. Nevertheless, the company appears overvalued at the moment. We believe that RBC's market share will decline slightly due to the absence of PPC advertising. Taking into consideration the DCF results and the spin-off of the IT business, we issue a **SELL** recommendation, and estimate the fair value of the company's shares at \$9.48 per share.

Comparative valuation

	M.Cap, \$ mn	P/E	EV/EBITDA	P/S
RBC	1,270	39.3	21.4	6.63
International media companies				
Pearson	18,619	19.7	11.5	1.8
Reuters Group	11,242	28.0	12.3	2.1
CNET Networks	1,271	51.9	26.2	5.7
Harris Interactive	293	24.5	11.8	1.4
Wilmington	360	23.0	8.9	1.7
Average:		29.4	14.1	2.5
International internet companies				
eBay	44,639	30.5	16.1	6.1
Yahoo!	36,726	54.9	19.5	7.6
Amazon.Com	16,856	90.7	22.0	1.3
Interactive Data Corp	2,135	22.9	8.0	2.7
Digital River	2,347	29.7	15.9	5.4
Sohu.com	891	33.1	19.4	5.5
Sina Corp	1,527	30.8	22.7	5.3
Netease	2,352	15.4	17.8	11.4
Yahoo Japan	23,072	44.7	24	12.6
Google	108,287	34.4	24.8	15.4
Average:		39.2	18.4	6.4
International TV companies				
British Sky Broadcasting	17,542	18.1	11.0	2.4
Mediaset	13,669	18.2	6.3	2.7
Societe Television Francaise-1	7,665	27.1	14.3	2.2
Sogecable	4,486	n/a	22.9	3.4
Multimedia Servicios de Telecom	3,848	27.1	14.0	4.4
Modern Times	4,103	20.5	14.3	2.4
Central European Media	2,553	56.0	17.0	5.3
TV Today Network	96	12.5	9.9	2.8
New Delhi TV	320	28.4	18.8	4.2
Television eighteen India	589	36.3	19.2	9.9
TV Azteca	1,421	7.5	4.7	2.0
Average:		25.2	13.8	3.8
Premium to media companies		133.67%	151.77%	265.20%
Premium to internet companies		100.26%	116.30%	103.59%
Premium to TV companies		155.95%	155.07%	174.47%

Source: company data

As you can see, RBC looks over valued according to each comparison considered. Nevertheless, we have not included this overvaluation in our final valuation, because RBC operates in an expanding market and operates different businesses under a common brand.

STOCK RATING POLICY

STRONG BUY:	Target price offers upside of over 100%; confidence level – high
STRONG BUY (SPEC):	Target price offers upside of over 100%; confidence level – low
BUY:	Target price offers upside of between 25% and 100%; confidence level – high
BUY (SPEC):	Target price offers upside of between 25% and 100%; confidence level – low
HOLD:	Target price offers upside of less than 25%
SELL:	Target price at or below current price levels

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