

RosBusinessConsulting

**FLASH
NOTE**

HOLD

**Target Price: US\$11
Upside: 11%**

Surprising 2006 IFRS results

Analyst: Mikhail Alefirenko
alefirenko@sovlink.ru

Stock data

Ticker	RBCI	MCap (US\$ mn)	1,181
Shares Ords	119,260,000	Free Float, %	44%
Shares Pref	-	Free Float (US\$ mn)	519.5
Bid Ords (US\$)	9.8	Offer Ords (US\$)	10
Bid Prefs (US\$)	-	Offer Prefs (US\$)	-

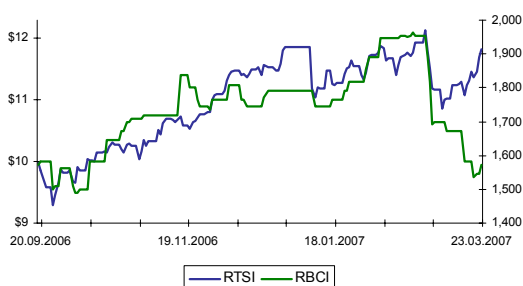
Market performance

		1 month	6 months
Absolute	Ords	-17.4%	0%
Relative to RTSI	Ords	-18.35%	-21.3%
Price range (US\$)			
High	Ords	12.1	12.1
Low		9.75	9.5

Financials, 2007E

Revenue (US\$ mn)	288.0	P/S	4.1
EBITDA(US\$ mn)	77.77	EV/EBITDA	17.9
Net Income (US\$ mn)	50.14	P/E	23.5

RBCI's share price performance



Source: RTS, Sovlink Securities

- The significant growth in reported 2006 revenues of \$207.8 mn exceeded our expectations, and was achieved as a result of increased internet and print advertising revenues.

- The company's 2006 results led us to review RBC's sales forecasts for the internet, IT and print sectors. The results from the TV business matched our expectations and we have not changed the growth forecasts for RBC TV.

- The sales results exceeded our expectations. However, such sales growth led to a decline in the EBITDA margin from 19% in 2005 to 17.8%. Furthermore, the company's substantial internet investment plan could lead to negative cash flow in 2007.

- According to RBC's 2006 IFRS results, its IT business generated \$81 mn in revenues in 2006. Thus, using an average P/S multiple of 1.2 (prevalent for IT companies) and forecast 2007 sales of \$101.3 mn, we value Armada's business at \$121.5 mn by the end of 2007. This means that Amada's contribution to RBC's share price could be up to \$0.97.

- The company's IT business also exceeded our revenue expectations. However, the buy back option is available only to shareholders as of March 7, 2007. We strongly recommend shareholders to use their buy back rights if applicable. We look positively on Armada shares and see Armada's share price at between \$10.5-\$12.15.

- We adjusted our DCF model based on the announced results for 2006. After revising our DCF model and taking into consideration Armada's contribution to RBC's share price, we place a 12-month target price of \$11 for RBC's shares, 11% above the current market price. Owing to RBC's excellent annual IFRS results, we raise our recommendation to **HOLD** and believe that RBC is being traded close to its fair value.

Financial results, \$ mn

	2005	2006	2007E	2008E
Sales	109.4	207.8	288.0	390.0
EBITDA	31.6	54.5	77.7	107.5
Net income	20.8	36.9	50.1	70.1
EBITDA margin, %	29.0%	26.2%	27%	27.5%
Net margin, %	19.0%	17.8%	17.4%	17.9%

Source: company data, Sovlink estimates

RBC's sales results exceeded our expectations, due to an increase in internet revenues in 4Q06. The results of the publishing business also exceeded our expectations, delivering \$15 mn in revenues instead of the \$4.95 mn forecast by us.

In the table below we show the differences between our estimates and the actual 2006 results announced by RBC. We note that the actual EBITDA figure remained close to our estimates with the actual turnover being considerably lower than our forecast. This led to a decline in the company's EBITDA margin from 19% in 2005 to 17.8% in 2006.

Nevertheless, the net income and net margin figures exceeded our expectations as well. We believe that this was due to sales growing at a faster rate than other factors, such as amortisation, interest expenses and taxes.

Sovlink estimates versus RBC's actual results

	2006	2006E
Sales	207.8	191.3
EBITDA	54.5	56.1
Net Income	36.9	32.3
EBITDA margin, %	26.2%	29.0%
Net margin, %	17.8%	17.0%

Source: company data, Sovlink estimates

We have highlighted changes in revenue in the table below. The significant growth in IT services is a result of the acquisitions of Gelios and Asko by RBC at the end of 2005. We have outlined the sharp growth in the internet and TV sectors. We also did not expect such figures from the print business. RBC's management expects its print business to generate about \$30 mn in revenues in 2007.

Revenue breakdown

	2006	2005	% Change
Media Services	126.8	80.1	58%
<i>Internet advertising</i>	49.4	35.7	38%
<i>Information services</i>	4.2	4.1	2%
<i>RBC TV</i>	34.3	24.3	41%
<i>Print publications</i>	15.3	-	-
<i>Marketing communications</i>	23.6	16.0	48%
IT services	81.0	29.3	177%
<i>Software developments and IT services</i>	35.2	21.1	67%
<i>System integration</i>	45.8	8.2	459%
Total revenue	207.8	109.4	90%

Source: company data

Valuation

We have taken into consideration the figures issued by the company regarding its 2006 results, and have used higher sales forecasts in our DCF model. Based on the announced results, we raised the internet and publishing growth rates used for media revenues. As the actual TV revenue results were in line with our prior estimates we have not changed RBC's TV revenue forecast in our DCF model. We also increased the growth rates for IT services in accordance with the announced results. 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 RBC's 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

	2006	2007E	2008E	2009E	2010E	2011E	2012E
Revenues	207.8	288.0	390.8	455.7	570.4	668.6	761.3
Media	77.2	109.2	167.4	190.9	264.0	310.8	347.8
IT services	81.0	101.3	126.6	156.9	193.0	235.5	282.6
TV	34.3	47.3	62.1	71.4	74.8	82.3	89.3
Publishing	15.3	30.2	34.7	36.5	38.5	40.0	41.6

Source: company data, Sovlink estimates

DCF Summary, \$ mn

	2006	2007E	2008E	2009E	2010E	2011E	2012E
Revenues	207.80	288.04	390.77	455.70	570.36	668.60	761.29
Gross profit	72.73	103.70	144.58	173.17	222.44	267.44	304.52
Non-COGS	30.03	43.21	60.57	72.91	94.11	113.66	133.53
EBITDA	54.51	77.77	107.46	127.60	159.13	185.87	207.53
Amortization & depreciation	11.80	17.28	23.45	27.34	30.80	32.09	36.54
EBIT	42.70	60.49	84.01	100.25	128.33	153.78	170.99
Interest payments	1.25	1.50	1.50	1.50	1.25	1.25	2.25
NI	36.89	50.14	70.14	83.94	108.02	129.65	143.43
EBITDA margin. %	0.26	0.27	0.28	0.28	0.28	0.28	0.27
Net margin. %	0.18	0.17	0.18	0.18	0.19	0.19	0.19
NI	36.89	50.14	70.14	83.94	108.02	129.65	143.43
Amortization & depreciation	11.80	17.28	23.45	27.34	30.80	32.09	36.54
Capex	38.80	71.10	78.80	28.00	31.00	33.00	37.00
Change in working capital	4.10	3.70	2.10	3.10	2.90	2.30	2.10
FCFF	14.00	0.02	16.88	86.38	110.72	131.04	145.07
FCFF discounted		0.02	13.46	61.49	70.36	74.36	73.50

Source: company data, Sovlink estimates

WACC	12%
Terminal growth rate	5%
Forecast NPV, \$ mn	293.18
NPV of Terminal Value, \$ mn	1,102
Fair EV, \$ mn	1,396
Net Debt, \$ mn	(35)
Fair M.Cap, \$ mn	1,431
Number of shares	119,260,000
Fair value, \$	12.00

Source: Sovlink estimates

After revising our DCF model, we obtained a fair value of \$12 for RBC's shares (including its IT assets). Changes in revenue forecasts resulted in an adjusted valuation based on our model.

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 (March 7), 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).

According to the 2006 IFRS results, the IT business generated revenues of \$81 mn in 2006. Thus, by using an average P/S multiple for IT companies in emerging markets of 1.2 and forecast 2007 sales of \$101.3 mn, we value Armada's business at \$121.5 mn by the end of 2007. This means that Amada's contribution to RBC's shares price could be up to \$0.97.

Taking the above into consideration, we subtracted the cost of the IT business from the original valuation. So, the fair value of RBC's shares should be decreased by \$0.97 to \$11.03. We look positively on the company's revenues exceeding our expectations and place a 12-month target price of \$11 on RBC's shares, 11% above the current market price. Owing to RBC's excellent annual IFRS results we raise our recommendation to **HOLD**.

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

SOVLINK LLC
Tel.: +7 495 967 1300
Fax: +7 495 967 1311

Kremlin Embankment 1. building 2.
Moscow 119019. Russia
www.sovlink.ru
research@sovlink.ru

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