



# Rambler Media

Company  
Note

**BUY**

**Upside: 64%**

**Target Price: \$42.87**

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## Stock data

Ticker	RMG LN	M.Cap, \$ mn	403
Shares Ords	15,397,649	Free float	45%
Shares Prefs	-	Free float, \$ mn	181.4
Bid Ords, \$	26	Offer Ords, \$	26.35

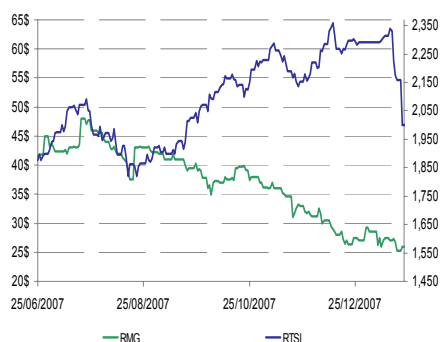
## Market performance

		1 month	6 months
Absolute	Ords	-3.6%	-44.44%
Relative to RTSI	Ords	9.3%	-43.61%
Price range, \$			
High	Ords	27.75	42.13
Low	Ords	26	26

## Financials, 2008E

Revenue, \$ mn	120.3	P/S	3.5
EBITDA, \$ mn	24.9	EV/EBITDA	15.9
Net income, \$ mn	11.4	P/E	35.3

Rambler – Relative performance



Source: RTS, Sovlink

## In search of profit

- The recent drop in Rambler's share price disappointed investors and dropped the company's price back to 2006 year-end levels. In the meantime, the company has continued implementing its new management's policy of restructuring loss making divisions and expanding through organic growth. Nevertheless, despite its more modest approach, we see Rambler as the most undervalued media company in Russia at the moment.

- The company's new management has already had a positive effect on the company. First of all, Rambler's stake in Begun was increased to a controlling level – 50.1%. The new management has started reorganising the company's Mobile VAS division by significantly reallocating its employees and cutting costs. The share of partner-based services was significantly reduced in order to give users more services with content generated by Rambler itself. As a result, Rambler's margin on these services is expected to increase. The new management has also markedly improved integration between Rambler and Begun.

- In 2008, we expect Rambler to gain revenues of \$68 mn from its core internet business revenue and Begun is expected to earn another \$52 mn from its PPC capacities – our estimated consolidated revenue for the whole group is about \$120 mn. Our expected consolidated EBITDA margin for the company is 20.7%. In our model, we assume Begun's EBITDA margin to decline from 20% to 18% over the next two years, while Rambler's core business profitability should increase to 22% in 2008 and grow to 35%, as targeted by the company – this is the average return for the type of assets owned by Rambler.

- In 2007, we expect Rambler to increase its market share of the internet display advertising market to about 20%-30% (based on our 2007 consolidated revenue forecast of \$62.9 mn). After increasing its share in Begun to 50.1%, Rambler became the second largest player on the Russian internet text-based advertising market. Consequently, by buying Rambler shares, investors acquire a significant portion of the fast growing Russian online ad market – which is why we consider the company's P/S multiple to be especially relevant. Based on a comparative P/S multiple valuation, we value Rambler's share price at \$46.3 per share.

- In terms of multiples valuation, the company looks quite attractive. Taking into consideration the low internet penetration level in Russia and its expected growth, we consider Rambler as a quite cheaply-priced company, operating in the booming Russian internet market. At the same time, our DCF model indicates a fair value of \$39.39 per share, (based on our conservative profitability scenario with respect to Rambler's core business. We have used Yahoo!'s EBITDA margin of 35% as the profitability benchmark for Rambler. Although, in our model we conservatively assume achieving this level in 2014, nonetheless, we hope that the company will attain an EBITDA margin of 35% in the next 2-3 years. Taking into consideration both our DCF and multiples analysis, we reiterate our **BUY** recommendation on Rambler with a target price of **\$42.9**, giving potential upside of 64% from current prices.

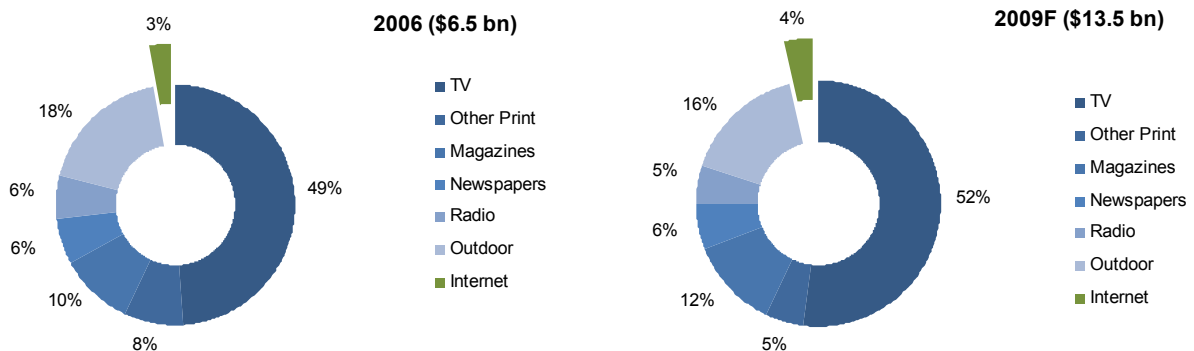


## Introduction

We decided to review our DCF model for Rambler in order to apply a more conservative growth rate for the company. The recent fall in the company's share price led to losses for investors and dropped the company's price back to its 2006 year-end level. In the mean time, the company has continued implementing the new management's policy of restructuring loss making divisions and expanding via organic growth. Nevertheless, despite its more modest approach, we see Rambler as the most undervalued media company in Russia at the moment.

With oil prices close to record highs, Russian consumption will remain strong in 2008, with AD agencies barely coping with advertisement flows. Moreover, we have to remember that new regulations in 2008 limit TV ad time and have resulted in a decrease in Moscow's Outdoor capacity share. We expect advertisers, who are tired of endless TV ad price growth Russian and who want to increase their contact with their target audience, to turn to the Internet as an alternative advertisement arena. As can be seen in the chart below, advertiser spend is expected to move from the Outdoor market to the Internet, whilst the Russian ad market as a whole is expected to increase from \$6.5 bn in 2006 to \$13.5 bn in 2009.

### Russian ad market segments



Source: Zenith Optimedia

Yandex's imminent IPO could also be an interesting event for the Russian media sector in 2008. We are looking forward to this event – Rambler's CFO, Arthur Akopyan, said that "if it happens, Yandex's IPO will increase investor attention on the Russian internet sector as a whole".

## Strategy

The company's new management has already had a positive effect on the company. First of all, Rambler's stake in Begun was increased to a controlling level – 50.1%. The new management has started reorganising the company's Mobile VAS division by significantly reallocating its employees and cutting costs. The share of partner-based services was significantly reduced in order to give users more services with content generated by Rambler itself. As a result, Rambler's margin on these services is expected to increase. The new management has also markedly improved integration between Rambler and Begun.

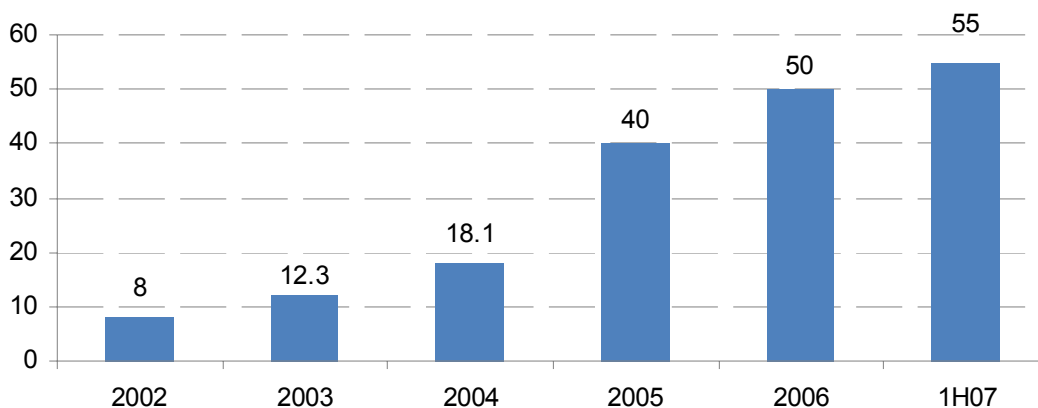
Akopyan stated that "One of the reasons why Rambler's profitability in the past was below expectations – was ineffective monetisation of search traffic. Before the company's purchase of a stake in Begun in August 2007, Rambler had several alternatives (such as developing its own platform, use the monetisation platform from Google or Yandex monetisation, or further cooperation with Begun). Since acquisition of control in August 2007, Rambler started working with Begun closely with respect to both technical and commercial aspects". Firstly, all search traffic capabilities were monetised and optimised, including the redirection of search visitor flows onto other Rambler services. For example, Begun and Rambler's search engine launched new integrated services, which provide Begun's partner sites with the possibility of inserting the Rambler Search tool bar on their website free of charge – enabling visitors to search the Internet from that page directly. Rambler and Begun have also launched an advertising model built around user behaviour. This is an example of one of the ways in which Rambler and Begun have increased the level of integration amongst themselves.



Akopyan also outlined changes in Rambler’s search quality: “We significantly improved search results: by using new ranking algorithms, and improved design and relevancy. Furthermore, we have improved the look-and-feel customer experience – all these changes amounted to a much better and competitive search product.”

(Queries per week, mn)

### Weekly search queries on Rambler



Source: Company data

### Changes in our DCF model

In our improved model, we decided to revise the growth prospects used in our previous model in order to obtain a more conservative valuation. We value Rambler’s and Begun’s core business separately. We continue to take into consideration three scenarios – the most likely, conservative and aggressive.

We use RACA’s forecasts, as the growth benchmark for Rambler’s core internet services (i.e. excluding Begun). In the table below, we show the new media sector growth predictions forecast by RACA.

#### Media budgets growth rates - according to media segment, %

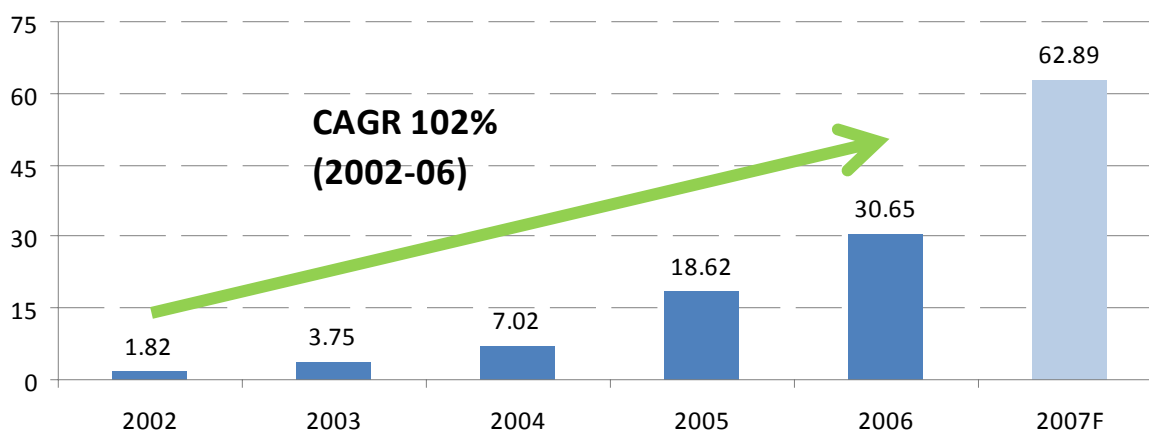
Media segments	2007F	2008F	2009F	2010F	2011F	2012F
TV	28.1	27.3	21.4	17.6	12.5	8.9
Radio	24.2	20.3	16.2	12.1	8.1	5.0
Press	21.1	16.7	15.9	11.0	7.4	5.2
<i>Newspapers</i>	25.5	22.9	21.4	13.6	10.0	6.8
<i>Magazines</i>	24.0	17.6	17.1	12.8	8.1	5.0
AD issues	15.0	11.4	10.2	6.2	4.2	4.0
Outdoor	16.5	13.6	11.8	8.4	5.8	2.8
<b>Internet</b>	<b>52.0</b>	<b>46.0</b>	<b>43.0</b>	<b>42.0</b>	<b>39.0</b>	<b>29.0</b>
Other	38.0	59.0	57.0	27.0	21.0	12.0
<b>Total market growth</b>	<b>24.4</b>	<b>22.6</b>	<b>19.3</b>	<b>15.3</b>	<b>11.3</b>	<b>8.0</b>

Source: RACA (Russian Association of Communication Agencies)

According to Rambler’s CFO – Arthur Akopyan – Rambler’s core internet business (communications, dating, news, search etc.) is expected to grow at least in line with the internet sector as a whole. We expect Rambler to grow in line with the internet market at a CAGR of 39.5% in 2008-12 (RACA estimates) and 13.5% between 2012-15 years (Sovlink estimates).



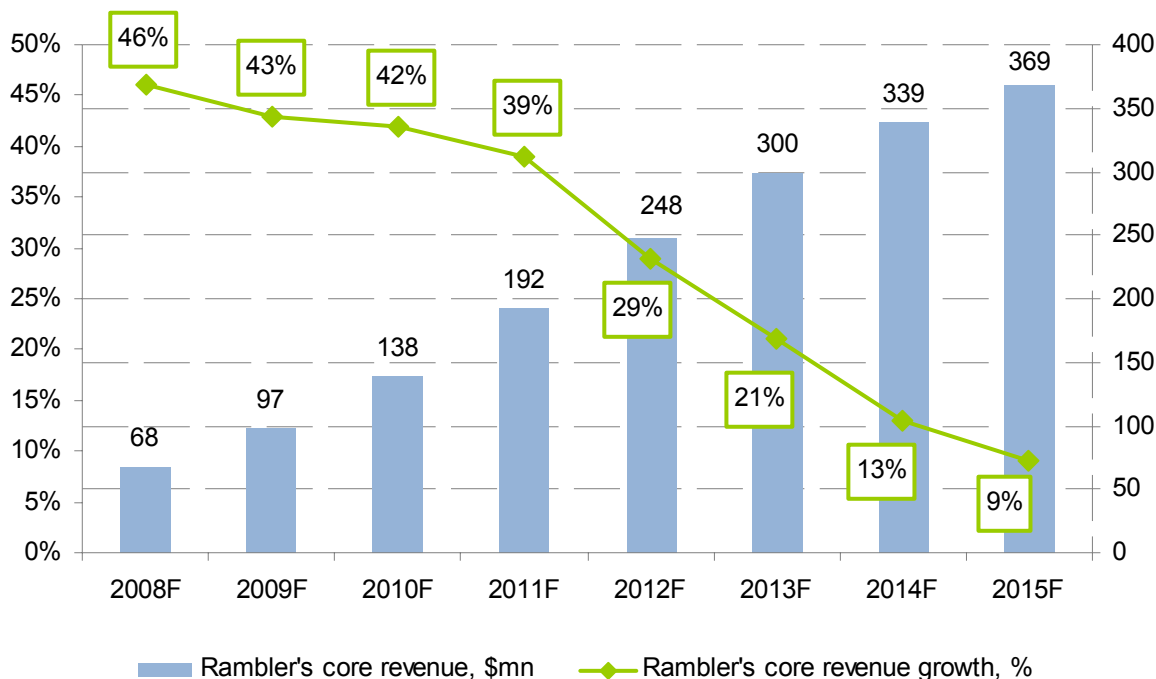
### Rambler's revenue from continuing operations, \$ mn



Source: Company data, Sovlink estimates

Recently, Rambler started cooperating with a subsidiary of Video International – IMHO VI. According to the terms of the cooperation, IMHO VI has guaranteed a specified level of banner ad sales. Kommersant reported a \$40 mn sales target (banners only), but Rambler's management refused to discuss this figure, saying that negotiations have not yet been finalised. Also, according to Kommersant, IMHO VI receives an option to acquire (Rambler's) Index20 shares in case it succeeds in achieving a specified level of banner sales. As Index20 is not an integral value provided to Rambler, we see the possible options exchange, as extremely fortunate for the internet company. We consider the collaboration with IMHO VI as potentially very useful for Rambler. We have also kept in mind the fact that Rambler expects strong sales from media, video and mobile advertising services (such as lenta.ru, price.ru, Rambler ICQ, Rambler games etc.). In the diagram below, we have given our revenue forecasts for Rambler's core online business and sales growth trends (Begun's revenue forecasts will be displayed separately).

### Rambler's core revenue dynamics



Source: Sovlink estimates



Mr. Akopyan is expecting the company to attaining an EBITDA margin level of over 20% in 2008. According to him, this figure is quite achievable, taking into consideration the company’s current assets. Our target for the company’s core online business is estimated at over 30%. We are quite confident that Rambler will be able to achieve an EBITDA margin of 20% next year, but we consider a 30% EBITDA margin as a very challenging target to achieve over the next two-three years – however, quite possible in 5-6 years’ time.

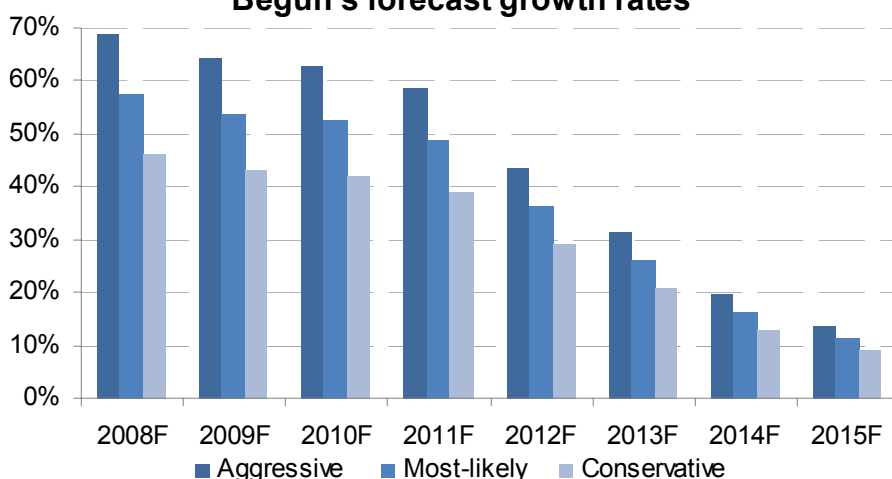
Rambler	2007F	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F
D&A, %	7.00%	6.75%	6.50%	6.25%	6.00%	5.75%	5.50%	5.25%	5.00%
EBITDA margin, %	8%	22%	26%	28%	30%	32%	34%	35%	35%

Source: Sovlink estimates

Akopyan does not expect such dramatic growth of the company’s labour costs in 2008. The management team is already in place and does not require expensive specialists. Payroll costs growth will be significant, but is expected to be lower than revenue growth rates. Rambler expects payroll costs to increase 25% in 2008, but not double. Akopyan said: “We continue to hire software specialists – developers and designers. We believe we have to invest in developing our communication services, media applications etc. Wage growth is one of the main problems facing the company, but this does not mean that we will start cutting staff numbers – instead, we aim to reallocate our personnel amongst the highest priority-driven projects, in order to avoid implementing significant staff increases in future. Rambler continues to hire mid-level personnel, but human resources’ position is gradually becoming more stable. The number of employees working at the company is growing because of acquisitions. For example, Begun had 120 employees at the time we acquired a controlling stake in it”.

We also use RACA’s forecasts for the internet industry in order to estimate Begun’s revenue flows. We see these figures as quite adequate as internet penetration amongst Russian citizens is still low and there is huge room for growth. We have also taken into account the fact that rising TV ad prices and reduced outdoor capacity will probably push advertisers into the online segment. However, we assume that the pay-per-click (PPC) market will grow at a faster rate than RACA’s forecast. According to Yandex’s PPC research carried out in Russia, the PPC market already outperformed the banner ad market in 2006, and has continued developing at a faster rate than the display/banner advertising sector. In the different scenarios given below, we have taken RACA’s forecast and improved it by 50% for our aggressive scenario and by 25% for our most-likely scenario. We use RACA’s base forecast as our conservative scenario (we have left it unchanged).

**Begun's forecast growth rates**



Source: RACA, Sovlink estimates

We strongly believe that the pay-per-click online operator, Begun, could easily achieve RACA’s growth forecast in September 2007 for the internet sector as a whole. Furthermore, we are confident that Begun’s growth rates will be higher than those projected by RACA.



We expect Rambler to grow at the same rate as the internet market with CAGR rates of 39.5% in 2008-12 and 13.5% in 2012-15. At the same time, according to Rambler's management (and according to our expectations) we expect Begun to outperform these growth targets:

*Begun's forecast growth rates*

	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F
Aggressive	69.0%	64.5%	63.0%	58.5%	43.5%	31.5%	19.5%	13.5%
Most likely	57.5%	53.8%	52.5%	48.8%	36.3%	26.3%	16.3%	11.3%
Conservative	46.0%	43.0%	42.0%	39.0%	29.0%	21.0%	13.0%	9.0%

Source: RACA, Sovlink estimates

Regarding the main capex drivers associated with its search business (building data centres, investments for improving its search engines, etc.), Begun has a lower D&A level than Rambler itself. However, we expect its EBITDA margin to come under pressure, due to intensifying competition from other PPC players. Thus we expect a 2% drop in its EBITDA margin during 2007-09 from 20% to 18% and a slight growth in subsequent years, due to only marginal improvement in its expected operational performance.

Begun	2007E	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F
D&A, %	1.50%	1.25%	1.00%	0.75%	0.50%	0.38%	0.25%	0.13%	0.13%
EBITDA margin, %	20.0%	19.0%	18.0%	18.1%	18.3%	18.4%	18.5%	18.6%	18.8%
PBT margin, %	18.5%	17.8%	17.0%	17.4%	17.8%	18.0%	18.3%	18.5%	18.6%
Effective tax rate, %	24%	24%	24%	24%	24%	24%	24%	24%	24%
Minority Interest, \$ mn	1.14	3.52	5.18	8.07	12.26	16.95	21.69	25.56	28.63

Source: Sovlink estimates

We have given Rambler's consolidated revenues (3 scenarios) in the table below.

*Rambler's consolidated revenue forecasts - 3 scenarios*

\$ mn	2007E	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F
<b>Most likely</b>									
Begun	16.31	52.24	80.32	122.49	182.20	248.25	313.41	364.34	405.33
Rambler	47	68	97	138	191.96	247.63	299.63	338.58	369.05
Total:	62.89	120.25	177.57	260.59	374.16	495.88	613.04	702.93	774.39
<b>Aggressive</b>									
Begun	16.31	56.06	92.21	150.30	238.23	341.86	449.55	537.21	609.73
Rambler	46.58	68.01	97.25	138.10	191.96	247.63	299.63	338.58	369.05
Total:	62.89	124	189.46	288	430.19	589.49	749.18	875.79	978.79
<b>Conservative</b>									
Begun	16.31	48.43	69.25	98.33	136.69	176.32	213.35	241.09	262.79
Rambler	46.58	68.01	97.25	138.10	191.96	247.63	299.63	338.58	369.05
Total:	62.89	116.44	166.50	236.43	328.64	423.95	512.98	579.67	631.84

Source: Sovlink estimates



In our DCF summary given below, we have included sales from both Rambler and Begun (in Rambler's total revenues for 2007, we have consolidated Begun's figures since August 2007). We assume a tax rate of 24% – which is the statutory rate in Russia, the main jurisdiction where Rambler's income is taxed. In our DCF model we also take into account a 49.9% stake in Begun held by Finam (one of the largest private equity players in the Russian IT/Internet sector). We have consolidated 100% of Begun's revenues, whereas Finam's stake is accounted for in the minority interest line.

**DCF Summary**

\$	2007E	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F
Revenues	62.89	120.25	177.57	260.59	374.16	495.88	613.04	702.93	774.39
EBITDA	6.99	24.89	39.74	60.87	90.84	124.86	159.86	184.67	205.17
EBITDA margin, %	11.1%	20.7%	22.4%	23.4%	24.3%	25.2%	26.1%	26.3%	26.5%
Amortisation & Depreciation	3.51	5.24	7.12	9.55	12.43	15.17	17.26	18.23	18.96
EBIT	3.48	19.64	32.62	51.32	78.41	109.69	142.59	166.44	186.21
Tax adjustment	-0.84	-4.71	-7.83	-12.32	-18.82	-26.32	-34.22	-39.95	-44.69
Minority Interest	1.14	3.52	5.18	8.07	12.26	16.95	21.69	25.56	28.63
Net profit	1.50	11.41	19.61	30.93	47.33	66.42	86.68	100.93	112.89
Net profit margin, %	2.4%	9.5%	11.0%	11.9%	12.6%	13.4%	14.1%	14.4%	14.6%
NI	1.50	11.41	19.61	30.93	47.33	66.42	86.68	100.93	112.89
Amortisation & Depreciation	3.51	5.24	7.12	9.55	12.43	15.17	17.26	18.23	18.96
Capex	-3.77	-4.21	-5.33	-6.51	-7.48	-8.68	-9.20	-8.79	-7.74
Change in working capital	-2.26	-2.01	-2.01	-2.70	-3.41	-3.35	-2.93	-2.02	-1.43
FCFE	-1.02	10.44	19.40	31.27	48.87	69.56	91.82	108.35	122.68
FCFE discounted	-1.02	9.08	14.67	20.56	27.94	34.58	39.69	40.73	40.10

**Summary**

Cost of Equity	15.0%
Terminal growth rate	4.0%
<b>Forecast NPV</b>	227.36
<b>NPV of Terminal Value</b>	379.15
Fair M.Cap, \$ mn	606.52
Net Debt (cash), \$ mn	-7
EV, \$ mn	599.52

Number of shares 15,397,649

**Target price, \$** 39.39

Source: Sovlink estimates

**Cost of equity**

Risk free	4.5%
Implied Beta	1
Market premium	7%
Country risk premium	2%
Small cap premium	0.5%
Company specific risk	1%
<b>Cost of equity</b>	<b>15.0%</b>

We have carried out a sensitivity analysis in order to highlight the dependence of our DCF valuation on the terminal growth and cost of equity applied in the model. We use a terminal growth rate of 4%, which is quite aggressive, but appropriate for a fast growing internet company with a revenue growth rate CAGR of 102% between 2002-06.

**Sensitivity analysis**

		Cost of Equity				
		13.00%	14.00%	15.00%	16.00%	17.00%
Terminal Growth	2%	\$44.03	\$39.22	\$35.20	\$31.80	\$28.89
	3%	\$47.11	\$41.63	\$37.12	\$33.35	\$30.15
	4%	\$50.88	\$44.53	\$39.39	\$35.15	\$31.61
	5%	\$55.58	\$48.07	\$42.11	\$37.29	\$33.31
	6%	\$61.63	\$52.49	\$45.44	\$39.85	\$35.32

Source: Sovlink estimates



We discount cash flows starting from 2008. We obtain a fair value of **\$39.39** for the company's ordinary shares in our **Most likely** scenario. We also computed alternative fair values using our DCF model based on alternative scenarios:

	<b>Conservative</b>	<b>Most likely</b>	<b>Aggressive</b>
DCF result, \$ per share	<b>36.99</b>	<b>39.39</b>	<b>42.75</b>

Rambler's CFO, Arthur Akopyan, also noted that the company might raise some debt and did not rule out the possibility of a secondary offering or a move from AIM to the LSE's main market. He emphasised that the company remains in an acquisitive mood, however did not give any further details. He also mentioned that the company is considering various steps to improve the liquidity of Rambler stock in general.

In our opinion, the best option for the company is to purchase the remaining part of Begun (as an acquisition idea). In our opinion, there are no large investment targets (meeting Rambler's requirements) in Russia with reliable prospects, and investing in them would thus be very risky for Rambler. The internet audience looking for new services from dating to trendy social networks is growing at a dramatic pace and it is hard to predict the growth rates for these businesses, whereas Begun has a straightforward business model and solid growth prospects based on its PPC model.



## Peer comparison

In order to value Rambler's shares relative to its foreign peers, we selected companies that had similar business models (offering communication, search, photo, mobile, online publishing and other services, which are also provided by Rambler). We also tried to compare companies with similar levels of market capitalisation in order to avoid size premiums (eg – Google). We have broken companies into groups companies from the USA, Europe, Asia/Pacific and BRIC. As the leading global internet companies – Google and Yahoo! – are also US companies and the largest global internet companies, we have kept them in a separate group. As shown in the table below, the market values these American companies equally with fast growing Chinese companies.

Company	M.Cap, \$ mn	P/S			P/E			EV/EBITDA			Country
		2007F	2008F	2009F	2007F	2008F	2009F	2007F	2008F	2009F	
GOOGLE INC	193,930.0	16.6	11.8	9.0	40.6	29.5	22.9	25.8	18.4	14.2	USA
YAHOO! INC	29,522.0	5.8	5.0	4.5	48.3	38.7	32.5	14.6	12.4	10.7	USA
<i>Average:</i>		<i>11.2</i>	<i>8.4</i>	<i>6.7</i>	<i>44.5</i>	<i>34.1</i>	<i>27.7</i>	<i>20.2</i>	<i>15.4</i>	<i>12.5</i>	
HEALTH GRADES	174.5	5.0	3.9	3.1	32.6	24.2	13.2	16.7	11.4	9.2	USA
KNOT INC	441.0	4.4	3.8	3.3	36.8	30.4	19.4	12.8	10.5	8.1	USA
LOOPNET	491.0	7.0	5.5	-	24.0	19.6	-	11.7	8.9	-	USA
THESTREET.COM	369.6	5.7	4.4	3.7	24.2	16.8	-	18.6	14.8	-	USA
WEBMD HEALTH	2,226.8	6.6	5.2	4.2	65.6	44.1	29.7	24.0	16.0	12.4	USA
<i>Average:</i>		<i>5.8</i>	<i>4.6</i>	<i>3.6</i>	<i>36.6</i>	<i>27.1</i>	<i>20.8</i>	<i>16.8</i>	<i>12.3</i>	<i>9.9</i>	
TARSUS GROUP PLC	240.7	2.7	3.0	2.3	13.4	16.3	9.3	10.8	11.1	8.0	UK
RIGHTMOVE (CO.UK)	993.4	9.1	7.0	5.9	23.4	17.1	13.7	16.1	11.8	9.7	UK
STEPSTONE .COM	445.7	3.1	2.3	1.8	51.5	17.3	10.4	-	-	-	NORWAY
SELOGER.COM	826.1	9.9	7.4	5.8	43.5	26.9	17.7	22.5	15.9	11.7	FRANCE
MEETIC	550.6	3.3	2.5	2.1	24.6	18.2	14.2	14.5	10.8	8.9	FRANCE
TOMORROW FOCUS	190.2	1.8	1.5	1.3	23.4	18.9	10.5	11.1	9.3	7.3	GERMANY
DADA SPA	337.7	1.5	1.2	1.1	18.9	12.9	11.1	11.3	8.7	7.6	ITALY
<i>Average:</i>		<i>4.5</i>	<i>3.6</i>	<i>2.9</i>	<i>28.4</i>	<i>18.2</i>	<i>12.4</i>	<i>14.4</i>	<i>11.3</i>	<i>8.8</i>	
CHINESE GAMER INT	261.2	7.4	6.3	5.5	14.3	9.9	9.7	11.1	7.8	7.6	TAIWAN
WEBZEL	171.8	4.8	3.8	2.7	-	-	-	-	19.3	4.3	KOREA
IRESS MARKET TECH.	687.0	5.9	5.0	4.5	21.0	17.3	14.9	13.4	11.0	9.5	AUSTRALIA
REALESTATE.COM.AU	695.6	5.7	4.7	3.9	34.2	23.2	16.8	22.0	14.8	10.5	AUSTRALIA
SEEK LTD	1,726.8	9.3	7.4	6.5	25.3	18.7	16.5	17.2	13.5	12.1	AUSTRALIA
<i>Average:</i>		<i>6.6</i>	<i>5.4</i>	<i>4.6</i>	<i>23.7</i>	<i>17.3</i>	<i>14.5</i>	<i>15.9</i>	<i>13.3</i>	<i>8.8</i>	
SOHU.COM INC	1,602.3	8.9	6.1	4.7	50.9	27.3	21.3	34.8	19.0	16.4	CHINA
SINA CORP	2,120.0	8.7	6.4	5.1	33.6	23.3	18.8	25.5	17.8	13.9	CHINA
BAIDU.COM (ADR)	9,957.2	42.9	23.4	14.8	122.2	68.9	44.6	97.8	52.0	32.9	CHINA
CHINA FINANCE ONLINE	301.6	11.8	5.3	2.8	45.7	15.0	7.7	25.6	8.4	4.3	CHINA
NETEASE.COM	2,408.0	8.3	7.4	6.4	14.9	14.2	13.0	11.7	10.7	9.7	CHINA
SHANDA INTERACTIVE	1,986.0	6.2	4.9	4.1	12.9	13.2	10.9	10.6	9.2	7.9	CHINA
REDIFF.COM	290.7	8.6	6.2	-	44.7	25.5	-	-	-	-	INDIA
UOL	726.7	2.5	2.3	2.2	11.0	10.5	9.5	-	-	-	BRAZIL
<i>Average:</i>		<i>12.2</i>	<i>7.7</i>	<i>5.7</i>	<i>42.0</i>	<i>24.7</i>	<i>18.0</i>	<i>34.3</i>	<i>19.5</i>	<i>14.2</i>	
<b>Rambler</b>		<b>6.4</b>	<b>3.4</b>	<b>2.3</b>	<b>47.4</b>	<b>35.3</b>	<b>20.6</b>	<b>56.7</b>	<b>15.9</b>	<b>10.0</b>	<b>RUSSIA</b>
Discount to Google		61%	72%	75%	-17%	-20%	10%	-119%	13%	30%	
Discount to Yahoo!		-11%	32%	49%	2%	9%	37%	-288%	-28%	7%	
Discount to US companies		-11%	26%	36%	-29%	-31%	1%	-238%	-29%	-1%	
Discount to European companies		-43%	6%	22%	-67%	-94%	-66%	-294%	-41%	-13%	
Discount to Asia/Pacific companies		3%	38%	51%	-100%	-105%	-42%	-256%	-20%	-13%	
Discount to BRIC companies		48%	57%	60%	-13%	-43%	-14%	-65%	18%	30%	

Source: Bloomberg, Sovlink estimates



As can be seen from the table, Rambler is undervalued with respect to P/S multiple valuations. But weak net income figures do not paint a bright picture for the company. However, despite Rambler's poor performance, it is definitely cheap in terms of its price/sales ratio. Considering that the company is expanding and in the process of optimising its operational processes, its earnings multiples are expected to improve over the next 2-3 years, when its EBITDA margin reaches a level of 20%.

We also note that according to Finam data, Rambler receives 16% of search traffic in Russia, which places it in 3<sup>rd</sup> place after Yandex – 55% and Google – 17%. The company has a significant share of Russian search traffic and according to our estimates, in 2007 Rambler increased its share of the entire internet display advertising market from 20% to 30%. After increasing its stake in Begun to 50.1%, Rambler became the second largest player on the Russian internet text based advertising market. Consequently, by acquiring a stake in Rambler, investors will benefit from the fast growing Russian online ad market, which is why we prefer basing the company's valuation on its P/S multiples. In the table below, we estimate Rambler's fair value by comparing the P/S multiples of its foreign peers.

\$, mn	Fair Mcap (BRIC)	Fair Mcap (Europe)	Fair Mcap (Asia/Pacific)	Fair Mcap (USA)	Fair Mcap (Google/Yahoo!)	Average
P/S 2008F	932	428	653	548	1008	714

Source: Sovlink estimates

Taking into consideration the average P/S multiple obtained for Rambler's foreign peers, we estimate Rambler's fair value per share at \$46.3.

## Conclusion

In terms of a multiples-based valuation, the company looks quite attractively priced. Taking into consideration, the low internet penetration prevalent in Russia (and its growth potential), we regard Rambler as a quite cheaply priced company operating in the booming Russian internet market. At the same time, our DCF analysis (based on a conservative profit forecast for Rambler's core business.) implies a fair value of \$39.39 per share. Our profitability benchmark for Rambler is Yahoo! with an EBITDA margin of about 35%, which we assume will be achieved by 2014. However, we hope that the company might beat our expectations and obtain an EBITDA margin of 35% over the next 2-3 years. In order to estimate our final target price, we have combined our DCF and multiples-based analysis with equal weighting.

	Market price	DCF	Multiples	Final target price
Price, \$	26.18	39.39	46.34	42.87
Upside, %	0%	50%	77%	64%

Source: Bloomberg, Sovlink estimates

Consequently, we obtain a final target price of **\$42.9** for Rambler's shares, giving potential upside of 64% from current prices. We, therefore, reiterate our **BUY** recommendation.

## STOCK RATING POLICY

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<b>STRONG BUY:</b>	Upside over 25%; confidence level – high / upside over 100%; confidence level - low
<b>BUY:</b>	Upside between 15 and 25%; confidence level – high / upside between 25% and 100%; confidence level – low
<b>HOLD:</b>	Upside of less than 15%; confidence level – high / upside of less than 25%; confidence level – low
<b>SELL:</b>	Target price at or below current price levels

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