

KP MEDIA

November 12, 2007

Expansion on target

Highlights

- ▶ KP Media increased 3Q07 sales by 76% y-o-y, to \$5.0m, and posted negative EBITDA of \$0.8m (better than negative \$1.2m in 3Q06) and a net loss of \$1.0m (below 3Q06 loss of \$1.2m). In 2Q-3Q07, which represents the first half of KP Media's current fiscal year running from April 1, 2007, to March 31, 2008, the company posted revenues of \$9.7m (up 60% y-o-y), negative EBITDA of \$1.1m (versus negative \$1.0m in 1H06) and a net loss of \$1.4m (versus losses of \$1.1m in 1H06). The losses were incurred due to the company's continued launch of new print tiles as part of its strategy to increase market share in both print and Internet to take advantage of the rapidly growing domestic advertising market. Disregarding new projects (less than 2 years old), KP Media half-year revenues from mature projects totaled \$8.7m (up 45% y-o-y), EBITDA reached \$1.1m (up from negative \$0.4m in 1H06) and net income stood at \$0.8m (up from a loss of \$0.5m in 1H06).
- ▶ In 3Q07 the company completed planned new launches in the print segment using proceeds from last year's IPO and will now focus on developing these projects before proceeding with expansion. Overall, since the beginning 2007 KP Media has launched four regional editions of its daily newspaper *15 Minutes* and also started publishing two women's magazines, a news magazine and another regional edition of its entertainment weekly.
- ▶ For the full year (April 2007-March 2008), KP Media expects to post revenues of \$22.2m (up 57% y-o-y but 10% below our April 2006 forecast) and negative EBITDA and net margins of 7.8% (up 3.9pp y-o-y and 1.3pp above our earlier estimate) and 11.1% (up 2.0pp y-o-y and 2.6pp above our projection), respectively. The expansion with new projects as well as strong organic growth of its existing publications enabled KP Media to continue to outperform the domestic media advertising market. In 2007, total media advertising revenues in Ukraine are expected to increase by 28% y-o-y, to 1.1bn, or 0.8% of 2007E GDP and \$24 per capita. On these metrics, the Ukrainian advertising market still remains well behind Russia and CEE countries, which underscores its strong potential for continued expansion.
- ▶ We updated our sum of parts valuation of KP Media, valuing separately the company's Internet business, new publishing projects and mature publications. We compared KP Media's business divisions with similar companies in developed and emerging markets based on 2007E-09F EV/Sales and EV/EBITDA, receiving a valuation of \$93.5m, or \$8.9/share. This estimate implies a 12-month price target of \$10.4 (up from the previous PT of \$8.09), or 42% above KP Media's current price, and a Strong Buy recommendation.

Valuation Summary

Year	2006	2007E	2008F	2009F	2010F
Sales (\$m)	14.1	22.2	33.7	43.3	53.5
EBITDA (\$m)	(1.6)	(1.7)	3.1	8.1	12.4
NI (\$m)	(1.8)	(2.5)	1.1	4.8	7.8
P/E	neg.	neg.	71.2	16.1	9.9
EV/EBITDA	neg.	neg.	25.7	9.7	6.3
EV/Sales	5.43	3.19	2.33	1.81	1.47

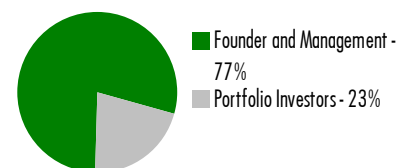
Price Target (\$)	10.38
Upside (%)	42%

Strong Buy

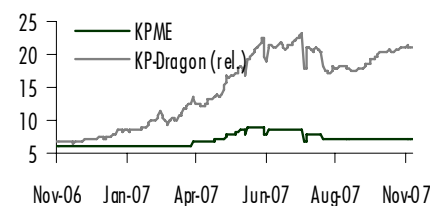
Company Data

Market Price (\$)	7.33
Market Cap (\$m)	76.9
Enterprise Value (07E; \$m)	78.6
Free Float (%)	23%
Free Float (\$m)	17.7
Shares Outstanding	10,500,000
Nominal Value (UAH)	2.4
Bloomberg Code	KPME UZ
DR Ratio	-
Number of Employees	634

Shareholder Structure



Price Performance (\$)



12-month Performance	14%
12-month Rel. Perform. (KP-Dragon)	(58%)
12-month Low/High	6.1/9.1
All-time Low/High	5.6/9.1
12-month PFTS Trading Volume (\$m)	0.5

FINANCIAL PERFORMANCE

KP Media increased 3Q07 sales by 76% y-o-y, to \$5.0m, and posted negative EBITDA of \$0.8m (better than negative \$1.2m in 3Q06) and a net loss of \$1.0m (below 3Q06 loss of \$1.2m). In 2Q-3Q07, which represents the first half of KP Media's current fiscal year running from April 1, 2007, to March 31, 2008, the company posted revenues of \$9.7m (up 60% y-o-y), negative EBITDA of \$1.1m (versus negative \$1.0m in 1H06) and a net loss of \$1.4m (versus losses of \$1.1m in 1H06). The losses were incurred due to the company's continued launch of new print titles as part of its strategy to increase market share in both print and Internet to take advantage of the rapidly growing domestic advertising market. Disregarding new projects (less than 2 years old), KP Media half-year revenues from mature projects totaled \$8.7m (up 45% y-o-y), EBITDA reached \$1.1m (up from negative \$0.4m in 1H06) and net income stood at \$0.8m (up from a loss of \$0.5m in 1H06). KP Media said its 3Q07 total sales came in 11% higher than the budgeted target while EBITDA was much better than negative \$1.9m budgeted for the period.

KP Media boosted 2Q-3Q07 sales by 60% y-o-y...

	2Q-3Q07 Mature Projects	2Q-3Q07 New Projects	2Q-3Q07 Total	Change (%; y-o-y) Old Projects	Change (%; y-o-y) New Projects	Change (%; y-o-y) Total
Sales	8,699	1,008	9,707	45.4%	1,048.7%	60.0%
Cost of Revenue	(4,508)	(2,040)	(6,548)	32.2%	332.9%	68.7%
Operating Expenses	(3,568)	(1,156)	(4,724)	10.5%	376.4%	36.0%
EBITDA	1,099	(2,181)	(1,082)	nm	nm	nm
EBIT	788	(2,188)	(1,400)	nm	nm	nm
NI	769	(2,188)	(1,419)	nm	nm	nm
<i>EBITDA Margin</i>	<i>12.6%</i>	<i>(216.4%)</i>	<i>(11.1%)</i>	<i>39.9 pp</i>	<i>303.9 pp</i>	<i>31.2 pp</i>
<i>EBIT Margin</i>	<i>9.1%</i>	<i>(217.0%)</i>	<i>(14.4%)</i>	<i>18.0 pp</i>	<i>496.3 pp</i>	<i>4.7 pp</i>
<i>Net Margin</i>	<i>8.8%</i>	<i>(217.0%)</i>	<i>(14.6%)</i>	<i>35.9 pp</i>	<i>306.8 pp</i>	<i>27.6 pp</i>

KP Media Financial Performance (2Q-3Q07; \$ '000)

Source: Company

In 3Q07 the company completed planned new launches in the print segment using proceeds from last year's IPO and will now focus on developing these projects before proceeding with further expansion. Overall, since the beginning 2007 KP Media has launched regional editions of its Kyiv-based free daily newspaper *15 Minutes* in four other Ukrainian cities with population over 1 million and also started publishing Ukrainian-language women's magazines *Pani* and *Vona*, weekly news magazine *Novynar* and another regional edition of the *Afisha* entertainment weekly. In Internet, KP Media launched the new version of its flagship Internet portal, Bigmir.net and plans to add a new email service to it by year end while continuing to upgrade its existing sites.

For the full year (April 2007-March 2008), KP Media expects to post revenues of \$22.2m (up 57% y-o-y but 10% below our April 2006 forecast) and negative EBITDA and net margins of 7.8% (up 3.9pp y-o-y and 1.3pp above our earlier estimate) and 11.1% (up 2.0pp y-o-y and 2.6pp above our projection), respectively.

...while completing planned launches of new print titles...

...and plans to report faster than expected recovery from expansion-related losses for the full year...

	New Forecast (KP Media)						Old Forecast (Dragon Capital)			Forecast Change 2007E New/Old; %
	2007E Mature	2007E New	2007E Total	Chg. (y-o-y) Mature	Chg. (y-o-y) New	Change (y-o-y) Total	2007E Mature	2007E New	2007E Total	
Sales	18,860	3,302	22,162	39.7%	420.4%	56.8%	19,671	5,015	24,686	(10.2%)
Cost of Revenue	(9,326)	(5,043)	(14,368)	23.4%	229.7%	58.1%	(10,591)	(6,406)	(16,997)	(15.5%)
Operating Expenses	(7,659)	(2,504)	(10,162)	13.8%	263.7%	37.0%	(6,695)	(3,230)	(9,925)	2.4%
EBITDA	2,507	(4,233)	(1,726)	nm	nm	nm	2,385	(4,621)	(2,236)	nm
EBIT	1,876	(4,245)	(2,369)	nm	nm	nm	1,364	(4,621)	(3,257)	nm
NI	1,792	(4,245)	(2,453)	nm	nm	nm	1,243	(4,621)	(3,378)	nm
<i>EBITDA Margin</i>	<i>13.3%</i>	<i>(128.2%)</i>	<i>(7.8%)</i>	<i>13.8 pp</i>	<i>120.0 pp</i>	<i>3.9 pp</i>	<i>12.1%</i>	<i>(92.1%)</i>	<i>(9.1%)</i>	<i>1.3 pp</i>
<i>EBIT Margin</i>	<i>9.9%</i>	<i>(128.6%)</i>	<i>(10.7%)</i>	<i>13.4 pp</i>	<i>121.0 pp</i>	<i>3.9 pp</i>	<i>6.9%</i>	<i>(92.1%)</i>	<i>(13.2%)</i>	<i>2.5 pp</i>
<i>Net Margin</i>	<i>9.5%</i>	<i>(128.6%)</i>	<i>(11.1%)</i>	<i>11.4 pp</i>	<i>121.0 pp</i>	<i>2.0 pp</i>	<i>6.3%</i>	<i>(92.1%)</i>	<i>(13.7%)</i>	<i>2.6 pp</i>

KP Media Financial Performance (2Q-3Q07; \$ '000)

Source: Company

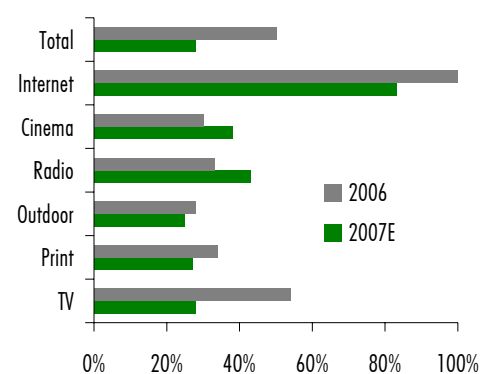
The expansion with new projects as well as strong organic growth of its existing publications enabled KP Media to continue to outperform the domestic media advertising market. In 2007, total media advertising revenues in Ukraine are expected to increase by 28% y-o-y, to 1.1bn, according to a summer forecast by the Ukrainian Advertising Coalition (UAC), a leading domestic association of advertising industry professionals. The UAC upgraded its summer forecast by 3%, or \$36m, from the projection released at the beginning of the year largely to accommodate political advertising revenues related to the campaign for early parliamentary elections held on Sept. 30. As the chart below shows, KP Media's core market segments, print media and Internet, are expected to continue growing robustly this year, with growth of 27% and 83% y-o-y, respectively.

**...outperforming domestic
advertising market growth**

	2006 (\$m)	2007E Old (\$m)	2007E New (\$m)	Change (New Forecast/2006; %)
TV	390	482	500	28%
Newspapers & Magazines	177	210	225	27%
<i>Magazines</i>	<i>113</i>	<i>134</i>	<i>152</i>	<i>35%</i>
<i>Newspapers</i>	<i>64</i>	<i>75</i>	<i>73</i>	<i>14%</i>
Outdoor	151	181	189	25%
Radio	26.5	36	38	43%
Cinema	6.5	8	9	38%
Internet	6	10	11	83%
<i>Other Media*</i>	<i>99</i>	<i>134</i>	<i>125</i>	<i>26%</i>
Total	856	1,061	1,097	28%

Ukraine Media Advertising Revenue Dynamics (2006-07E)

Note: *TV product placement, ads on public transportation and in telephone directories and indoor ads. Source: Ukrainian Advertising Coalition



Ukraine Adspend Growth By Medium (%)

Source: Ukrainian Advertising Coalition

VALUATION

We updated our sum of parts valuation of KP Media, valuing separately the company's Internet business, new publishing projects and mature publications based on a comparison with similar companies in developed and emerging markets using 2007E-09F EV/Sales and EV/EBITDA. We valued KP Media's new publishing projects based on 2010F fundamentals only (discounted back based on 2008F-10F average cost of equity of 16.5%) to more accurately reflect the potential sales and profitability these currently loss-making titles should achieve when they mature.

Valuing separately mature and new publishing projects and Internet

			Sales (\$m)			EBITDA (\$m)		
			2007E	2008F	2009F	2007E	2008F	2009F
Mature Projects			14.4	20.2	24.5	0.6	2.0	3.3
New Projects			4.5	8.1	10.9	(3.7)	(1.6)	0.9
New Projects					2010F			2010F
					13.7			2.4
Global Peers	Country	MC \$m	EV/Sales 2007E	EV/Sales 2008F	EV/Sales 2009F	EV/EBITDA 2007E	EV/EBITDA 2008F	EV/EBITDA 2009F
Gannett Co	US	9,249	1.77	1.71	1.77	6.5	6.2	9.5
Tribune Co	US	3,222	1.57	1.59	1.60	7.0	7.2	16.7
Washington Post -Cl B	US	8,183	1.96	1.79	-	11.5	10.4	-
Daily Mail&General Tst-A Nv	GB	4,648	1.43	1.30	0.70	7.7	6.7	9.9
Axel Springer Ag	GE	5,140	1.58	1.28	0.90	9.9	8.8	13.2
Sanomawsoy Oyj	FI	4,858	1.37	1.28	1.20	8.1	8.0	13.0
Promotora De Inform Sa -Prisa	SP	3,931	1.57	1.36	1.20	7.8	6.1	9.4
Fairfax Media Ltd	AU	6,446	4.91	3.17	2.91	20.6	10.7	15.2
Independent News & Media Plc	IR	2,521	1.75	1.66	1.61	7.6	7.0	9.9
New York Times Co -Cl A	US	2,668	1.15	1.22	1.23	7.5	7.7	15.9
Trinity Mirror Plc	GB	2,002	1.36	0.91	1.37	5.8	3.7	7.9
West Australian Newspapers	AU	2,336	7.86	6.16	5.85	16.9	12.6	16.9
Johnston Press Plc	GB	1,529	1.89	1.80	1.71	5.7	5.3	6.7
Mcclatchy Co-Class A	US	1,263	1.65	1.50	1.52	6.5	6.2	10.7
Vocento Sa	SP	2,846	2.05	1.92	1.80	15.2	12.4	15.1
Apn News & Media Limited	AU	2,208	2.45	2.36	2.26	8.9	8.3	13.1
Telegraaf Media Groep Nv	NE	1,753	1.29	1.26	1.23	10.8	9.3	17.7
Lee Enterprises	US	725	2.01	2.05	2.07	-	8.8	11.6
Wegener Nv-Cva	NE	1,015	1.30	1.23	1.13	9.0	7.7	12.7
Next Media Ltd	HK	821	1.83	1.62	1.44	10.9	8.4	13.4
Journal Register Co	US	97	1.78	1.78	-	8.5	8.9	-
Singapore Press Holdings Ltd	SI	4,980	6.29	5.50	4.77	14.4	11.4	12.2
Dogan Yayin Holding	TU	2,750	1.55	1.27	1.01	13.1	8.7	16.1
Hurriyet Gazetecilik Ve Matb	TU	1,258	2.01	1.88	1.52	8.9	7.4	9.4
Agora Sa	PD	1,129	2.14	2.00	1.88	14.8	13.0	21.8
Star Publications	MA	748	2.77	2.57	2.41	9.2	8.2	13.6
New Straits Times Press	MA	131	1.12	1.03	0.95	8.8	7.2	13.7
Peers' Median		2,336	1.77	1.66	1.52	8.94	8.17	13.13
KP Media Print Business Implied Valuation	MC \$m	EV/Sales 2007E	EV/Sales 2008F	EV/Sales 2009F	EV/EBITDA 2007E	EV/EBITDA 2008F	EV/EBITDA 2009F	
Mature Projects	27.0	24.3	33.0	39.6	3.8	15.6	45.5	
New Projects	14.4			15.3			13.6	
TOTAL	41.4							

KP Media Comparative Valuation (Print)

Note: We used 2007E-09F fundamentals for the mature publications and 2010F fundamentals for new projects (discounted back based on 2008F-10F average cost of equity of 16.5%). We think the valuation of new publications based on their current multiples does not provide an accurate picture as these titles are in an early growth stage and their sales and profitability are therefore much lower than what they can potentially achieve in several years (newly launched print publications typically reach a breakeven level in 2-3 years). Sources: Bloomberg, Dragon Capital estimates

Our valuation yielded a fair value estimate of \$27.0m for KP Media's mature print publications and \$14.4m for new publications, resulting in a combined valuation of \$41.4m. A similar valuation comparison of KP Media's Internet business with Russian and Chinese Internet portals yielded \$52.1m on average.

We valued KP Media's print business at \$41m and Internet at \$52m

		Sales (\$m)			EBITDA (\$m)			
		2007E	2008F	2009F	2007F	2008F	2009F	
Internet		3.3	5.5	7.9	1.4	2.7	3.9	
Global Peers	MC \$m	EV/Sales			EV/EBITDA			
		2007E	2008F	2009F	2007F	2008F	2009F	
Rosbusinessconsulting-Cls	RU	1,085	4.35	3.51	2.95	16.0	10.1	13.5
Rambler Media Ltd	RU	555	7.41	4.09	2.81	22.0	11.5	7.3
Baidu.Com - Spon Adr	CH	11,656	49.14	27.17	17.12	115.4	61.8	54.9
Sohu.Com Inc	CH	1,946	10.47	6.98	5.32	42.1	22.6	25.1
Sina Corp	CH	2,639	9.59	6.83	5.17	35.5	24.0	23.5
Netease.Com Inc -Adr	CH	2,447	7.42	6.04	4.66	11.8	10.0	13.3
Peers' Target Valuation Multiples		9.59	6.83	5.17	35.5	22.6	23.5	
KP Media Internet Business Implied Valuation	MC \$m	EV/Sales			EV/EBITDA			
		2007E	2008F	2009F	2007F	2008F	2009F	
Internet	52.1	31.2	37.3	41.9	47.9	61.3	93.3	

KP Media Comparative Valuation (Internet)

Source: Thomson Financial, Dragon Capital estimates

Combining the above comparative valuation estimates, we estimated KP Media's total fair value (FV) at \$93.5m, or \$8.9/share. This valuation implies a 12-month price target, calculated as $FV \times (1 + \text{Cost of Equity}_{2007})$, of \$10.38/share, or 42% above KP Media's current market price. We assign a Strong Buy recommendation to the stock.

The sum of parts valuation implies a 12-m price target of \$10.4/share, 42% above the current stock price

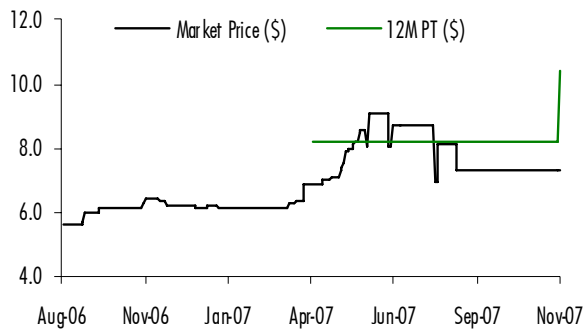
	Implied Value (\$m)	EV/Sales			EV/EBITDA		
		2007E	2008F	2009F	2007E	2008F	2009F
<i>Publishing Peers Median Multiples</i>		1.77	1.66	1.52	8.94	8.17	13.13
KP Media (Publishing, Mature Projects)	27.0	24.3	33.0	39.6	3.8	15.6	45.5
				2010F (disc.)			2010F (disc.)
KP Media (Publishing, New Projects)	14.4			15.3			13.6
		2007E	2008F	2009F	2007E	2008F	2009F
<i>Internet Peers Median Multiples</i>		9.59	6.83	5.17	35.5	22.6	23.5
KP Media (Internet)	52.1	31.2	37.3	41.9	47.9	61.3	93.3
KP Media Total Implied Fair Value	93.5						

KP Media Summary Valuation (Internet)

Source: Dragon Capital

HISTORICAL PRICE TARGETS

KP Media (KPME)



DRAGON CAPITAL STOCK RATINGS

Dragon Capital employs three basic recommendations to rate stocks under coverage: Buy, Hold and Sell. The recommendations are assigned according to the table below.

12-m Upside from Current Market Price	Recommendation
>20%	Buy
0% - 20%	Hold
<0%	Sell

In addition, the Buy recommendation has two variations, Strong Buy and Speculative Buy. We rate a stock as a Strong Buy if its upside exceeds 40% and we see no material risks that could jeopardize our valuation. We assign a Speculative Buy recommendation to stocks whose valuation justifies a Buy or Strong Buy recommendation but is vulnerable to downside risks, particularly adverse corporate governance developments. Stocks that are either suspended from trading or do not have price target and recommendation assigned by Dragon analysts are designated as Not Rated.

We put a stock Under Review if its price target and/or recommendation are subject to change based on latest financial results, newly arisen risk factors, or other important events. We make all reasonable effort to reinstate recommendations and price targets on stocks under review in the shortest possible time. Finally, we suspend a traded company from coverage if Dragon Capital signs an investment banking mandate with the said company (for example, to place its shares on the market). Coverage is reinstated after the relevant investment banking transaction is closed.

Current Rating Distribution

Companies Covered	Recommendation					
	Buy*	Hold	Sell	Under Review	Not Rated	Suspended
113	20	15	52	15	10	1
% of Total	18%	13%	46%	13%	9%	1%

Note: *Stocks rated as Buy, Strong Buy and Speculative Buy

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