

EKSPRESS GRUPP

HOLD

 PRICE: 0.88 EUR
 TARGET: 1.03 EUR

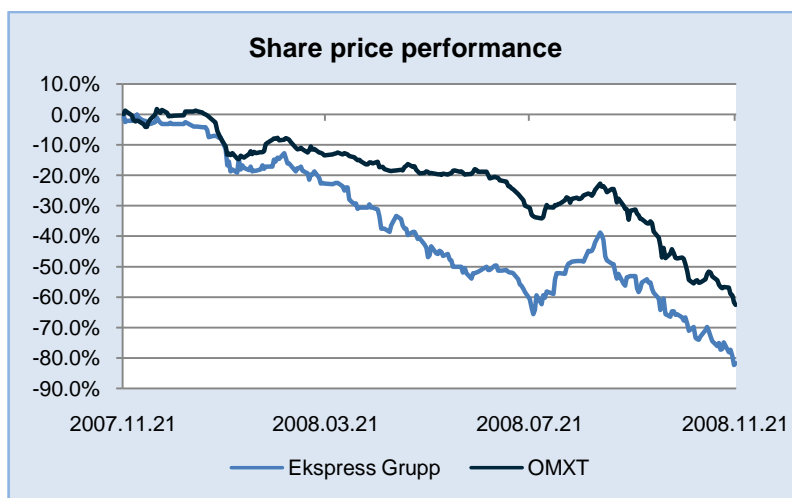
Company	
Country:	Estonia
Sector:	Consumer discretionary
Industry group:	Media
Ticker:	EEG1T
Free float	24.90%
Risk level:	Very high
Date	2008 11 24

Multiples	2007	2008F	2009F	2010F
Mcap, mEUR	88.8	16.7	16.7	16.7
P/E	15.33	4.72	6.87	7.39
P/BV	2.44	0.42	0.39	0.38
EV/EBITDA	14.27	6.24	6.53	6.62
EV/S	1.96	0.81	0.71	0.63
ROE	15.88%	8.84%	5.73%	5.11%
ROA	5.17%	3.24%	2.26%	2.01%
Dividend yield	0.00%	0.00%	0.00%	2.91%

Financials (mEUR)	2007	2008F	2009F	2010F
Revenue	73.50	84.96	92.92	102.89
Growth	23.54%	15.60%	9.37%	10.74%
EBITDA	10.11	11.00	10.18	9.83
Growth	16.68%	8.78%	-7.50%	-3.44%
Margin	13.76%	12.95%	10.95%	9.55%
Net income	5.80	3.54	2.43	2.26
Growth	-1.65%	-38.97%	-31.22%	-7.06%
Margin	7.88%	4.16%	2.62%	2.20%
Assets	111.99	109.05	107.70	112.37
Equity	36.48	40.01	42.45	44.22

Last quarter (mEUR)	IIIQ 2008A	IIIQ 2007E	Diff %
Revenue	18.86	19.77	-4.64%
EBITDA	2.71	2.69	0.63%
Net profit	0.76	0.80	-4.38%
EBITDA margin	14.37%	13.61%	
Net margin	4.05%	4.04%	

Please see important disclosures at the end of this report



PROFITABILITY SUSTAINS STRONG PRESSURE

- Ekspress Grupp reported double digit growth in IIIQ 2008. Total revenue showed 14.5% increase compared to IIIQ 2007 reaching EUR 18.86 million.
- The biggest revenue growth (181% yoy) was achieved in online media segment, first of all driven by Delfi, which was not fully consolidated in IIIQ 2007. The growth of revenue was shown in other business segments as well: printing (7.1%), periodicals (5.7%), book sales (12.3%) and information services (3.8%).
- Due to acquisitions and expansion, Ekspress Grupp has faced increasing expenses. EBIT margin dropped from 10.0% in IIIQ 2007 to 6.1% in IIIQ 2008. This result came in line with our estimates.
- Despite of strong increase in revenue, the net profit dipped 37.4% compared to IIIQ 2007 and was equal to EUR 0.76 million. Net profit margin decreased from 7.4% in IIIQ 2007 to 4.1% in IIIQ 2008
- The biggest risk arises from high net debt, which amounts EUR 51.89 million in IIIQ 2008. Company declared that paying back of the loan goes according to the schedule. However, financial expenses will further put strong pressure on profitability.

CONCLUSION

IIIQ 2008 results came in line with our expectations. We still think that company has good growth potential especially in online media segment. Combined both DCF and relative comparison methods we assess fair value to be EUR 1.03 per share. Thus it means decreasing our target price from EUR 3.75 to EUR 1.03 per share. Therefore we downgrade recommendation from BUY to HOLD.

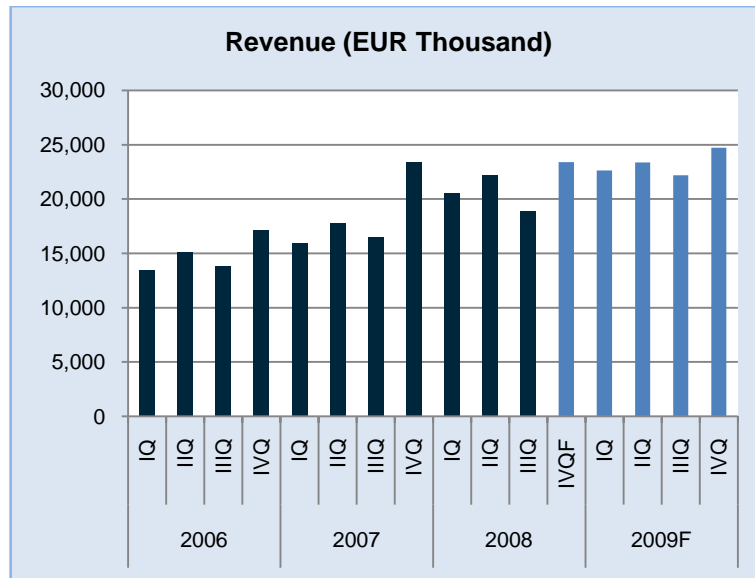
Analyst

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ECONOMIC SLOWDOWN DEEPENED SEASONALLY WEAK QUARTER

Ekspress Grupp reported 14.5% yoy revenue growth

In IIIQ 2008 Estonian media company Ekspress Grupp has reported the sales revenue of EUR 18.86 million (14.5% yoy growth). We expected somewhat stronger growth and revenue of EUR 19.77 million. Economic slowdown affects all business segments in Estonia and advertising market is not an exception. Although IIIQ is seasonally weak quarter in advertising market, but this year the decline was even larger than expected. According to the survey of TNS Emor in IIIQ 2008 advertising revenue of magazines declined 5% and of newspapers decreased by 21% compared to IIIQ 2007.



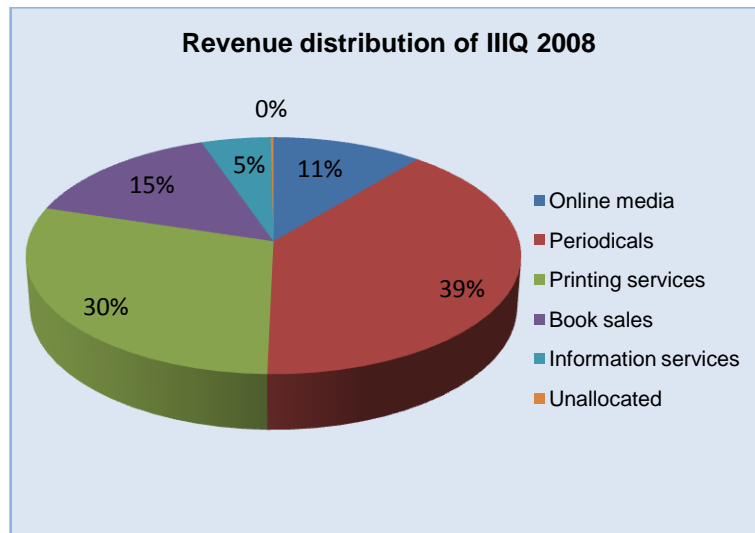
Source: Company data, Finhill forecasts

Ekspress Grupp achieved EBITDA of EUR 2.7 million, i.e. 21.6% increase compared to IIIQ 2007. EBITDA margin increased from 13.5% in IIIQ 2007 to 14.4% in 2008. Furthermore, EBIT totalled EUR 1.65 million, which is the same result as year ago. The decrease in EBIT margin was influenced by increasing expenses as well as by higher depreciation related to the intangible assets added in the acquisition of Delfi and Maaleht and investments into fixed assets made in 2007.

Large net debt puts strong pressure on net profit margin

Due to acquisitions made in 2007 Ekspress Grupp has high net debt of EUR 51.89 million. D/E ratio is 1.32, which is not very favourable figure, taking into consideration current condition in credit market. Increasing interest rates might negatively affect company's profitability in coming quarters.

Increasing expenses and higher financial expenses caused sharp decline in the net profit. In IIIQ 2008 Ekspress Grupp reached net profit of EUR 0.76 million. As we expected, net profit margin dipped from 7.4% in IIIQ 2007 to 4.1% this year. Ekspress Grupp is continuing to implement cost cutting programme introduced in the first quarter. The programme include savings of paper and printing costs, savings of IT development costs and savings of personnel expenses, which is the biggest cost saving source. The effect of the lay-offs which company has made in IIIQ will be seen in the coming quarter as labour costs might decrease.



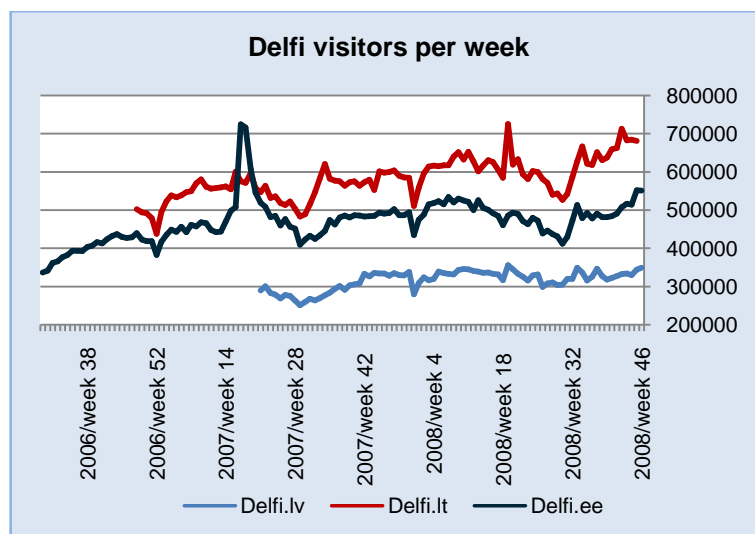
Source: Company data

Company reported revenue increase in all business segments. Although in most of the segments company's results were in line with our estimates, the revenue from online media segment (EUR 2.24 million) was 22% below our forecasted revenue of EUR 2.88 million.

In September 2007 Ekspess Grupp has increased its presence in online media business significantly. Company acquired Delfi Group for EUR 54.05 million, financed through a bank loan of EUR 43 million and through remaining funds from IPO in April 2007. Delfi is number one news portal in the Baltic countries and is still growing. On average, it has about 1.5 million unique users per week. In the IIIQ Delfi contributed revenue of EUR 2.03 million, i.e. 10.8% from total company's revenue.

New projects caused decline in EBITDA from online media segment

In IIIQ of 2008 EBITDA of online media segment declined 70% compared to the same period of 2007. Such a big slump is related to the expenses launching Delfi Ukraina (EUR 0.1 million) and two large development projects: entertainment portal www.klubas.lt in Lithuania (EUR 70 thousand) and a new entertainment portal www.mango.lv in Latvia (EUR 24 thousand). Company points out that excluding the cost related to three development projects, EBITDA grew by 46% compared to IIIQ 2007.



Source: TNS Metrix

Printing services capacity has increase by a third when company launched new printing machine in October 2007 and gluing line in February 2008. These actions allowed increasing revenue by 7.1% compared to IIIQ 2007 and reaching EUR 5.83 million (we expected 5% growth). In the same period, export turnover increased by 27% as a result of taking new printing machine in use.

Publishing segment generated 39% from total company's revenue

Publishing segment is depended on advertising revenue. After acquisition of Maaleht (second largest weekly in Estonia by volume), Ekspress Grupp had increased its share of advertising revenue, therefore the impact of slowdown in advertising business is larger than before. Revenue from publishing segment (EUR 7.96 million) was in line with our estimates. It is worth to mention that the advertising revenue from publishing segment declined by 4.6%. Meanwhile, the revenue of subscription of periodicals and single copy sales increased by 24% and by 2%, respectively. At the same time, EBITDA dipped by 10% as the gross margin of advertising revenue is higher than that of subscriptions.

Book sales demonstrated 12.3% growth in IIIQ 2008 compared to IIIQ 2007. The growth was achieved through the addition of new stores. Company indicated 12% growth of the retail sales of books. It seems that economic slowdown so far has not had a major negative impact on the retail sales of books. We expect some additional sales revenue as new bookstore was opened on 1 October in Tallinn. The opening of a new bookstore in Pärnu has been postponed until 2009 due to a delay by the developer.

In information services segment sales revenue grew by 3.8% in IIIQ 2008, but EBITDA made up 83% of the 2007 level. Ekspress Grupp has decided to exit the business of information services in Romania at the end of 2008 due to delay in adoption of new electronic communication law. Therefore, there can be expected that decline in EBITDA margin will not continue in coming quarters.

WE EXPECT SOME IMPROVEMENT IN MARGINS

Economic downturn might negatively influence advertising market not only in IIIQ 2008, but in all 2009 as well. We expect slower than previously thought advertising market growth in coming years. Thereby, we reconsidered Ekspress Grupp revenue increase in 2009 and 2010 and lowered them by 10.8% and 13.4%, respectively. More precise we still foresee company's revenue growth by 9.4% in 2009 and 10.7% in 2010, primarily driven by increase in internet advertising market, which has the biggest potential for further strong growth.

We increased EBITDA margin forecast due to costs saving programme

Furthermore, Ekspress Grupp has begun to take action in order to improve its profitability. Company is implementing costs saving programme, which includes savings of printing costs, IT development and payroll expenses. We expect somewhat improvement in labour expenses as the effect of made lay-offs might appear in IVQ 2008. Company has planned more lay-offs in coming quarter. Therefore, we increased EBITDA margin from 10.0% to 11.0% in 2009 and from 9.5% to 10.3% in 2010.

At the moment Ekspress Grupp has weak balance sheet. Due to acquisition of Maaleht and Delfi Group in 2007, Ekspress Grupp took loan in the amount of EUR 43.1 million. In IIIQ 2008 the net debt was equal to EUR 51.9 million. Due to increase of interest rates in current credit market, company will have to withstand strong pressure on net profit margin.

VALUATION

IIIQ 2008 results haven't brought any big surprises. Therefore, the main changes were made due to economic slowdown, which might cause lower advertising market growth as well as Ekspress Grupp revenue. In other hand, we increased EBITDA and net profit margins, considering cost saving programme. Looking at long term prospective we remain positive because business is diversified and company has a leading position in most of the segments. Fair value of the share was diminished by increased WACC. Estimated WACC increased from 9.7% to 11% due to higher risk free rate.

On new forecasts, our DCF-based Ekspress Grupp value is EUR 1.43 per share, which implies 62.9% upside from current market price of EUR 0.88 per share.

The current share price indicates that company is overvalued compared with peers in terms of EV/EBITDA ratio. For companies with high net debt P/E ratio is not very representative. Taking trailing EV/EBITDA multiple we get fair value of EUR 0.62 per share. It must be noted that company's trailing EBITDA margin (13.35%) is lower than the average of peer group EBITDA margin (15.34%). Meanwhile, net profit margin (4.94%) is also lower than the average margin of 5.81%.

CONCLUSION

Based on our DCF model we think that Ekspress Grupp is currently undervalued. Furthermore, relative comparison we get share value of EUR 0.62, i.e. 29.5 % downside from current share price.

Combined both DCF and relative comparison methods we assess fair value to be EUR 1.03 per share. Thus it means decreasing target price from EUR 3.75 to EUR 1.03 per share. Therefore we downgrade recommendation from BUY to HOLD.

We downgrade target price from EUR 3.75 to EUR 1.03 per share and downgrade recommendation to HOLD

DCF MODEL

		2006	2007	2008F	2009F	2010F	2011F	2012F	Terminal year
EBIT	kEUR	6,677	7,569	7,430	6,212	5,966	6,756	7,678	7,678
- Taxes on EBIT	kEUR	269	458	346	497	477	540	614	1,382
+ Depreciation and amortization	kEUR	1,991	2,545	4,070	3,964	3,861	3,800	3,742	3,742
- Working capital changes	kEUR	0	708	-586	1,031	744	618	665	34
- Capital expenditure	kEUR	4,370	3,651	2,595	3,155	3,474	3,432	3,391	3,513
= Free cash flow	kEUR	4,029	5,297	9,144	5,493	5,131	5,965	6,749	6,491
Discounted cash flow	kEUR	4,029	5,297	9,134	4,900	4,124	4,321	4,407	4,238
Present cash flow value	kEUR	18,695							
+ Terminal value	kEUR	60,435							
- Net debt	kEUR	51,892							
- Minority	kEUR	35.16							
= Equity value	kEUR	27,203							
Number of shares		18,981,081							
One share value	EUR	1.43							

SENSITIVITY ANALYSIS

		Terminal growth		
		0%	1%	2%
WACC	11.01%	0.27	0.48	0.72
	10.01%	0.58	0.84	1.16
	9.01%	0.96	1.29	1.72
	8.01%	1.43	1.43	2.46
	7.01%	2.04	2.65	3.51
	6.01%	2.85	3.74	5.08
	5.01%	3.98	5.37	7.68

RELATIVE ANALYSIS
COMPANIES FOR COMPARISON (12M TRAILING RESULTS)

Company	Country	Currency	Mcap, million	P/E	P/BV	EV/Sales	EV/EBITDA	EBITDA margin	Net margin
Schibsted ASA	Norway	NOK	4,226.83	3.62	0.82	0.64	6.18	10.89%	0.35%
Promota de Informaciones	Spain	EUR	656.44	3.45	0.58	1.59	5.61	20.76%	5.30%
Sanoma WSOY	Finland	EUR	1759.49	7.68	1.33	0.93	5.79	15.97%	7.58%
Alma Media Corp	Finland	EUR	425.29	8.42	3.61	1.36	6.55	22.50%	15.35%
Spir Communication	France	EUR	107.55	3.57	0.44	0.34	3.56	9.80%	3.45%
St Ives PLC	Great Britain	GBP	75.59	4.63	0.49	0.24	1.88	13.43%	3.73%
AgoraSA	Poland	PLN	825.46	10.26	0.68	0.54	3.77	14.06%	4.89%
<i>Average</i>				5.95	1.14	0.81	4.76	15.34%	5.81%
<i>Median</i>				4.63	0.68	0.64	5.61	14.06%	4.89%
Ekspress Grupp	Estonia	EUR	16.70	3.98	0.43	0.81	6.05	13.35%	4.94%

Source: BLOOMBERG

ESTIMATE CHANGES

mEUR	2008F			2009F			2010F		
	Old	New	Change	Old	New	Change	Old	New	Change
Revenue	90.68	84.96	-6.3%	104.15	92.92	-10.8%	118.82	102.89	-13.4%
EBITDA	10.61	11.00	3.7%	10.41	10.18	-2.2%	11.23	10.56	-6.0%
Net profit	2.83	3.54	25.0%	2.73	2.43	-10.9%	3.59	2.26	-37.0%
EBITDA margin	11.7%	12.9%		10.0%	11.0%		9.5%	10.3%	
Net margin	3.1%	4.2%		2.6%	2.6%		3.0%	2.2%	

INCOME STATEMENT (kEUR)

	2006	2007	2008F	2009F	2010F	2011F	2012F
Revenue	59,492	73,496	84,958	92,915	102,892	112,948	121,060
Expenses	52,815	65,927	77,528	86,703	96,926	106,193	113,383
EBITDA	8,668	10,114	11,002	10,176	9,826	10,556	11,420
Depreciation and amortization	1,991	2,545	4,070	3,964	3,861	3,800	3,742
EBIT	6,677	7,569	7,430	6,212	5,966	6,756	7,678
EBT	6,287	6,280	3,776	2,695	2,515	3,253	4,281
Income tax	269	458	235	258	250	314	441
Net income	5,892	5,795	3,537	2,432	2,261	2,935	3,835

BALANCE SHEET (kEUR)

	2006	2007	2008F	2009F	2010F	2011F	2012F
Long-Term Assets	28,207	92,452	91,599	90,789	90,403	90,035	89,685
Tangible assets	18,484	25,877	24,834	24,024	23,638	23,270	22,920
Intangible assets	8,838	65,408	64,989	64,989	64,989	64,989	64,989
Financial assets	265	294	892	892	892	892	892
Other assets	620	873	884	884	884	884	884
Current assets	14,382	19,536	17,446	16,909	21,966	25,900	26,783
Inventories	2,867	4,228	3,475	4,066	4,377	4,784	5,115
Accounts receivables	7,835	10,606	11,696	12,675	14,284	16,034	17,618
Other current assets	0	0	0	0	0	0	0
Other financial assets	414	294	562	562	562	562	562
Cash & equivalents	3,266	4,408	1,712	-394	2,743	4,520	3,487
Total Assets	42,589	111,988	109,045	107,698	112,369	115,936	116,467
Total equity	16,955	36,483	40,014	42,446	44,220	46,590	49,545
Shareholders' equity	16,940	36,422	39,996	42,428	44,202	46,572	49,527
Minority interest	15	61	18	18	18	18	18
Non-current liabilities	7,601	47,402	42,380	42,380	42,380	42,380	42,380
Long term debt	7,596	47,396	42,190	42,190	42,190	42,190	42,190
Deferred tax	0	0	0	0	0	0	0
Other long-term liabilities	5	6	190	190	190	190	190
Current liabilities	18,033	28,103	26,651	22,872	25,769	26,966	24,543
Short term debt	6,073	12,719	11,817	7,500	9,220	8,879	5,206
Payables	11,960	15,384	14,834	15,372	16,548	18,087	19,337
Other current liabilities	0	0	0	0	0	0	0
Total Equity and Liabilities	42,589	111,988	109,045	107,698	112,369	115,936	116,467

FINANCIAL CHANGES Y/Y

	2006	2007	2008F	2009F	2010F	2011F	2012F
Revenue	-	23.54%	15.60%	9.37%	10.74%	9.77%	7.18%
Expenses	-	24.83%	17.60%	11.83%	11.79%	9.56%	6.77%
EBITDA	-	16.68%	8.78%	-7.50%	-3.44%	7.42%	8.19%
Net income	-	-1.65%	-38.97%	-31.22%	-7.06%	29.81%	30.69%

MULTIPLES

	2006	2007	2008F	2009F	2010F	2011F	2012F
Mcap, EUR million	0.0	88.8	16.7	16.7	16.7	16.7	16.7
P/E	0.00	15.33	4.72	6.87	7.39	5.69	4.36
P/BV	0.00	2.44	0.42	0.39	0.38	0.36	0.34
EV/EBITDA	0.00	14.27	6.24	6.53	6.62	5.96	5.28
EV/S	0.00	1.96	0.81	0.71	0.63	0.56	0.50
D/E	0.59	1.52	1.30	1.17	1.09	0.99	0.88
D/E market values	#DIV/0!	0.62	3.11	2.98	2.89	2.76	2.61
ROE	34.75%	15.88%	8.84%	5.73%	5.11%	6.30%	7.74%
ROA	13.83%	5.17%	3.24%	2.26%	2.01%	2.53%	3.29%
Dividend yield	#DIV/0!	0.00%	0.00%	0.00%	2.91%	3.38%	5.27%

MARGINS

	2006	2007	2008F	2009F	2010F	2011F	2012F
EBITDA	14.57%	13.76%	12.95%	10.95%	9.55%	9.35%	9.43%
EBIT	11.22%	10.30%	8.75%	6.69%	5.80%	5.98%	6.34%
EBT	10.57%	8.54%	4.44%	2.90%	2.44%	2.88%	3.54%
Net income	9.90%	7.88%	4.16%	2.62%	2.20%	2.60%	3.17%

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Recommendation prepared by

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The person responsible for the preparation of this document: financial analyst's assistant Laurynas Narusevicius.

The date of the recommendation

Recommendation submitted for distribution: 2008-11-24

The price of the Issuer's securities analyzed mentioned as of the date and time: 2008-11-21: 15:00.

The organizer of the recommendation has delivered other recommendation(s) on the same Issuer's securities within the period of recent 12 months since the issue of this recommendation; the recommendations differ as follow:

Date	Recommendation	Target price
2008-11-24	HOLD	EUR 1.03
2008-08-05	BUY	EUR 3.75

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Hold	When the set value of the share is higher -10% or lower +20%
Buy	When the set value of the share is higher +20%
Sell	When the set value of the share is lower -10%
No recommendations	No recommendations are given due to unreliable and/or lack of information

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	BUY	HOLD	SELL
Total:	14	6	3
Percentage of the total number of recommendations:	60.9%	26.1%	13.0%
Issuers which were provided the main investment services by FBC Finhill Ltd. within the period of recent 12 months	1	0	0
Percentage of the total number of recommendations:	100%	0%	0%

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