

Europe Italy  
Media Publishing

Deutsche Bank



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# RCS MediaGroup

Reuters: **RCSM.MI** Bloomberg: **RCS IM** Exchange: **MIL** Ticker: **RCSM**

## Good Q1 results and positive outlook

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### Q107 EBITDA Euro 30.4m, 6.6% better than DB est.

Q107 results were slightly ahead of our estimates from sales down to net profit. Group revenues came at E581.4m, +9.2% YoY and 1.9% higher than our est., with circulation sales up 6.1% and adspend up 8.2%. EBITDA was E30.4m, down 3.2% YoY and 6.6% better than our forecast. Net profit were E17.1m against DB est. of E14.4m. We would stress that Q1 results are of limited relevance to FY numbers because of the seasonality of the business. We think the disposal of ISP's stake and 3 Italia for a total of E177m will be taken as positive by the mkt. Buy.

### Disposal of peripheral assets for Euro 177m

In April, RCS signed a put option to sell 29.4m Intesa San Paolo shares by 1 June '07 for total cash of E160m and a capital gain of E52m, not including E11.2m in dividends. On 10 May RCS signed an agreement to transfer its 0.5% stake in 3 Italia to Hutchison Whampoa Group for E16.8m, plus E2m if Hutchison sells "3 Italia" or "H3G" within the next two years.

### Positive outlook: FY07 EBITDA higher than 2006

In April Italian and Spanish daily circulation was in line with budget together with a good performance in the respective adspend markets. Books are showing a positive trend, better than budget and last year. Magazine circ. and adspend are in line with budget and better than last year. Therefore the company expects FY07 EBITDA to be higher than 2006, even without the consolidation of Recoletos. Excluding the consolidation of Recoletos, we estimate FY07 EBITDA at E305m (E278.4m in FY06).

### BUY confirmed, TP Euro 5.3, upside 32.5%

Our TP of Euro 5.3 p/s is based on a DCF analysis, with the line-by-line consolidation of Recoletos. Our DCF implies a fair value for the media business of E3,064m. Main assumptions: WACC of 6.87%, a 4.23% risk-free rate, a 4% equity risk premium, a beta of 1.0 and a 2% perpetuity growth rate, in line with the media sector. Our Recoletos fair value is around E1bn. We confirm our TP of E5.3 with a 32.5% upside. Risks: weaker than forecast adspend; a higher than expected decline in add-on sales, personnel cost inflation and overpayment for M&A.

Forecasts and ratios					
Year End Dec 31	2004A	2005A	2006E	2007E	2008E
Revenue (EURm)	2,150	2,191	2,380	2,846	2,978
EBITDA (EURm)	211	263	278	394	430
DB EPS growth (%)	15.7	44.5	-11.2	-1.2	9.2
P/E (DB EPS) (x)	16.0	16.7	15.2	15.4	14.1
EV/EBITDA (x)	10.9	13.7	10.2	9.9	8.9
Yield (%)	1.2	2.2	3.8	3.8	4.3

Source: Deutsche Bank estimates, company data

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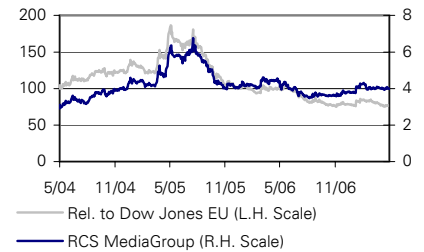
DISCLOSURES AND ANALYST CERTIFICATIONS ARE LOCATED IN APPENDIX 1

## Results Review

### Buy

Price at 14 May 2007 (EUR)	3.99
Price Target (EUR)	5.30
52-week range (EUR)	4.42 - 3.47

### Price/price relative



Performance (%)	1m	3m	12m
Absolute	-1.0	-5.8	-8.1
Dow Jones EURO STOXX Price	1.7	3.5	

### Stock & option liquidity data

Market cap (EUR)(m)	3,042.0
Shares outstanding (m)	743
Free float (%)	37
Option volume (und. shrs., 1M avg.)	-

### Expected dividends (gross)

date	status	type	amount
date	status	type	amount
date	status	type	amount

### Event Calendar

Event 1	<date>	tentative
Event 2	<date>	tentative

## Q107 results review

Q107 EBIT was as E13.6m vs. our estimate of E11.5m and against Euro 18.7m of Q106. The decline in EBIT is mainly due to a strong increase in depreciation related to the important investment in full color and to the acceleration of the depreciation of the production plan at "La Gazzetta dello Sport" following the approval of the full color project.

**Figure 1: RCS MediaGroup Q1 results (Euro m)**

	Q1 2006	Q1 2007	YoY %	Q107E	Variance (%)
Total net revenues	532.3	581.4	9.2%	570.4	1.9%
- Circulation	320.7	340.4	6.1%	333.2	2.2%
- Advertising	171.0	185.0	8.2%	181.8	1.8%
- Other revenues	40.6	56.0	37.9%	55.4	1.1%
EBITDA	31.4	30.4	-3.2%	28.5	6.6%
- EBITDA margin %	5.9%	5.2%		5.0%	
EBIT	18.7	13.6	-27.3%	11.5	18.0%
- EBIT margin %	3.5%	2.3%		2.0%	
Pre-tax profits	24.2	10.6	-56.2%	9.1	16.1%
Net profits	33.7	17.1	-49.3%	14.4	18.5%

Source: Deutsche Bank

At the end of Q107, RCS net cash was Euro 21.8m, in line with our estimate of Euro 22m and against Euro 5.7m at the end of FY06. We remind that the cash-out for the acquisition of Recoletos (Euro 817.4m), for 49% of Blei (Euro 25.2m) and for 51% of Digicast (Euro 16.3m) all happened in April 2007 and therefore is not yet included RCS net financial position at the end of Q107.

## Q107 divisional performance

The Italian newspaper achieved sales of E182.6m, up 2.3% YoY with adspend increasing by 5.9% YoY and total circulation up 0.5% YoY. EBITDA was E26.9m against a DB est. of E26.5m and vs. E30m in Q106. The decline in EBITDA is due to lower contribution coming from add-ons products (Q107 sales Euro 52.4m, up 2.3% YoY) and to the launching cost related to Corriere Bologna.

The Spanish division sales were E92.6m, up 15.8% YoY, with adspend increasing 23.6% YoY and total circulation up 6.5% YoY (net circulation +9.6% YoY and add-ons +1.2% YoY). EBITDA was E12m against E9m of Q106.

**Figure 2: RCS Q1 divisional sales (Euro m)**

	Q1 2006	Q1 2007	YoY %	Q107E	Variance (%)
Newspaper division	258.4	275.2	6.5%	268.8	2.4%
- Italy	178.4	182.6	2.4%	181.5	0.6%
- Spain	80.0	92.6	15.8%	87.3	6.0%
Magazine division	73.1	70.1	-4.1%	69.7	0.6%
DADA	22.7	35.4	55.9%	35.4	0.0%
Advertising division	131.4	137.4	4.6%	136.5	0.6%
Book division	146.9	170.2	15.9%	164.2	3.6%
Radio division	6.4	5.1	-20.3%	4.5	13.3%
Intercompanies	-106.6	-112.0	5.1%	-104.3	7.4%
Total sales	532.3	581.4	9.2%	570.4	1.9%

Source: Deutsche Bank

Book division sales were E170.2m, up 15.9% YoY. The strong increase in sales was mainly due to the good performance in the Italian division and the partworks division both in Italy and abroad. EBITDA registered a loss of E8.8m against a DB estimate of E-10m and vs. E-5.5 of Q106. The negative EBITDA reflects the lower seasonal margins and the cost related to a higher number of partworks launches compared to last year.

**Figure 3: RCS Q1 divisional EBITDA (Euro m)**

	Q1 2006	Q1 2007	YoY %	Q107E	Variance (%)
Newspaper division	39.0	38.9	-0.3%	38.1	2.1%
- Italy	30.0	26.9	-10.3%	26.5	1.5%
- Spain	9.0	12.0	33.3%	11.6	3.3%
Magazine division	-2.9	-3.0	3.4%	-3.1	-4.3%
DADA	3.4	4.7	38.2%	4.5	4.4%
Advertising division	2.4	1.4	-41.7%	1.4	2.5%
Book division	-5.1	-8.8	72.5%	-10.0	n.m.
Radio division	-2.1	-0.2	n.m.	0.0	n.m.
Intercompanies	-3.3	-2.6	-21.2%	-2.3	13.0%
Total EBITDA	31.4	30.4	-3.2%	28.5	6.6%

Source: Deutsche Bank

The magazine division revenues were Euro 70.1m, decreasing 4.1% YoY, with circulation sales down 12% YoY and adspend up 3.2% YoY. The decline in circulation was due to a different launches in add-ons compared to last year and to a decline in the magazine's market (-6/7% in Q107 in term of copies sold). The EBITDA loss was E3m in line with last year.

The radio (broadcast) division registered sales of Euro 5.1m from Euro 5.2m registered in Q106 on a like-for-like basis (stripping out Play Radio disposed on 27 April 2007). EBITDA was Euro -0.2m against Euro -2.1 registered in Q106 and Euro -0.1 on like-for-like basis.

On 27 April 2007, RCS announced the acquisition of 34.6% of Finelco Group, of which 25% in exchange for the conferment of Play Radio, RCS national radio station and 12.9% acquired from MPS Venture for E20.75m, which evaluate Finelco (pre Play Radio) Euro 161.4m. Finelco owns two successful national radio stations: Radio 105 Network and Radio Montecarlo, with 3.7m and 2.1m daily listeners in FY 2006 respectively. The agreement implied also a shareholder agreement for a period of five years between RCS and the others shareholder of the Finelco Group: 1) the radio operation will be managed by Mr. Alberto Hazan, 2) in the fourth year, the others shareholders of Finelco will have put rights to sell their stake to RCS and 3) put and call rights in case of impasse and during the fifth year, in the event of a non-renewal of the shareholder pact. We value this agreement as positive for RCS because 1) it allows the company to deconsolidate the radio activity (E9m EBITDA loss in FY06), 2) RCS acquires a 35% of a group with three national radio stations, 3) RCS will have the possibility to acquire the whole Finelco group starting from year four.

We remind that Recoletos will be consolidated starting from 12 April 2007, while Digicast, a company owner and broadcasting digital thematic channels, mainly distributed through the Sky Italia satellite platform, will be consolidated in RCS accounts from the beginning of April '07.

## Outlook

The company said that In April Italian and Spanish daily circulation were in line with budget together with a good performance in the respective adspend markets. Books are showing a positive trend, better than budget and last year. Magazine circ. and adspend are in line with budget and better than last year.

Therefore RCS MediaGroup's management forecast FY07 EBITDA to be higher than 2006, even without the consolidation of Recoletos. Excluding the consolidation of Recoletos, we estimate FY07 EBITDA at E305m against E278.4m registered in FY06.

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### **Valuation: Buy confirmed, TP Euro 5.3, upside 32.5%**

Our TP of Euro 5.3 p/s is based on a DCF analysis, with the line-by-line consolidation of Recoletos. Our DCF implies a fair value for the media business of E3,064m. Main assumptions: WACC of 6.87%, a 4.23% risk-free rate, a 4% equity risk premium, a beta of 1.0 and a 2% perpetuity growth rate, in line with the media sector.

All of RCS MediaGroup's stakes in listed companies have been valued at their market price, while the minor unlisted companies have been valued at cost. Both the stakes in IPG JCDecaux (outdoor business) and m-dis (distribution) have been valued on peer multiples – 2.5x sales for IPG JC Decaux and 0.3x sales for m-dis in line with the sector multiples.

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### **Risks**

The main risks are a disappointment in the rate of recovery of the ad market, greater competition in the magazine market, disappointments in add-on sales and future acquisitions made at value destructive prices.

# Appendix 1

## Important Disclosures

Additional information available upon request

### Disclosure checklist

Company	Ticker	Recent price*	Disclosure
RCS MediaGroup	RCSM.MI	3.99 (EUR) 14 May 07	8,14

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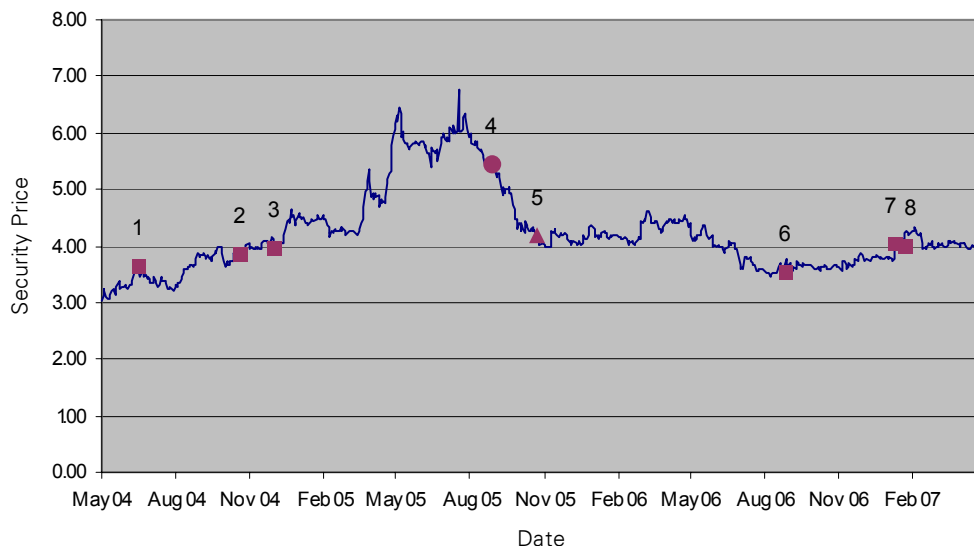
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(as of 14/05/2007)



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- Strong Buy
- Buy
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- Underperform
- Not Rated
- Suspended Rating

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- Buy
- Hold
- Sell
- Not Rated
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1.	30/6/2004:	Buy, Target Price Change EUR4.24	5.	8/11/2005:	Upgrade to Buy, EUR5.20
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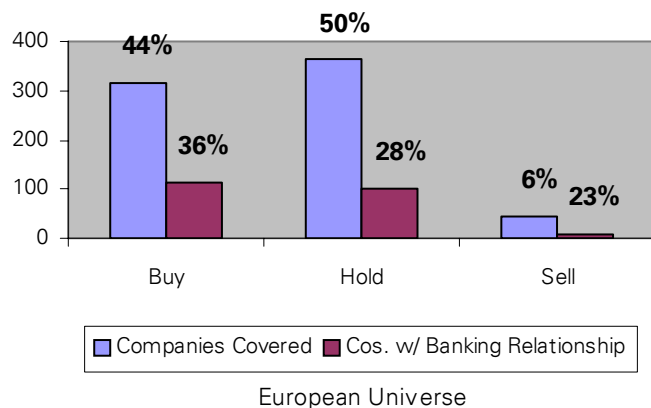
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