

16 July 2010

Research Report

Media
Poland

CCI

CCIY.WA; CCI.PW

Hold

(New)

Current price	PLN 39.00
Target price	PLN 39.90
Market cap	PLN 1997m
Free float	PLN 352m
Average daily trading (3M)	PLN 1.56m

Shareholder structure

I.T. International Theatres LTD	64.37%
Aviva OFE	12.78%
BZ WBK TFI	5.23%

Others	17.62%
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Sector Outlook

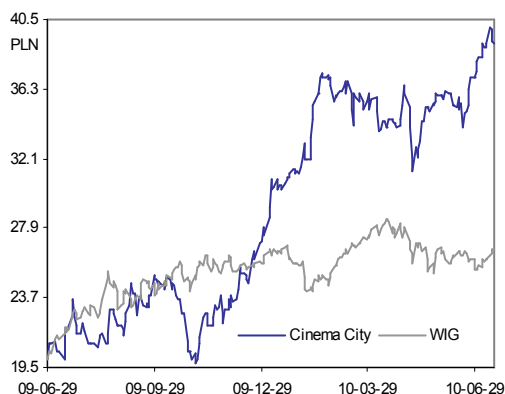
In CEE cinema markets, per-capita ticket sales are lower than in developed countries, while tickets are significantly more expensive relative to salaries. The gradual increase in population wealth in the region will facilitate catching up with EU15 countries.

Company Profile

Cinema City is one of Europe's biggest cinema operators, and the biggest one in Central and Eastern Europe. At the end of Q1 2010, it had 676 screens in 69 cinemas scattered over six countries (Poland, Czech Republic, Romania, Bulgaria, Israel and Hungary). In addition to ticket sales, the Company generates revenue on ads shown before movie features, distribution of films and DVDs and, to a limited extent, real-estate development activities.

Important Dates

31.08 - H1 2010 report

CCI vs. WIG

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The Unsung Potential of Cinema

The cinema market in Central and Eastern Europe is currently experiencing very rapid growth, which is the result of the growing wealth of the population, the expansion of the cinema network and the worldwide increase in the popularity of 3D features. In expectation of further market growth, Cinema City is currently implementing a broad investment program, which will allow it to increase the number of screens nearly by half through 2013, and to position itself in the market in a way that will allow it to take the greatest possible advantage of the expected boom. We approve of the Company's strategy in this respect and we expect it to improve its profits in the coming years at a rate that will fully justify the premium vs. peers at which it is currently trading (a 35.6% premium on FY10 EV/EBITDA and an 0.9% discount on FY10 P/E). In our opinion, the Company's current valuation adequately reflects the balance of threats and opportunities relevant to its business, and we recommend holding the stock, setting our price target at PLN 39.9 per share.

Network Expansion Plans

Over the next three years, Cinema City will build 41 movie theaters comprising a total of 411 screens. The most extensive investment plans have been prepared for Romania, where the Company wants to build 28 theaters with 264 screens. The plans are somewhat less ambitious for Bulgaria (5 cinemas with 46 screens) and Poland (7 and 75). The execution of these plans will help these countries catch up with Western Europe as far as the number of screens relative to population size is concerned (in Romania, there is one screen per 312,000 inhabitants, in EU15, one per 16,500), and it will strengthen CCI's market leadership position.

Markets Still Have Room for Growth

In CEE cinema markets, where Cinema City operates, per-capita ticket sales are lower than in the west (0.2-1.3 tickets sold per person vs. 2.2 in EU15). However, ticket prices relative to average salaries are much higher: an average monthly salary in CCI's markets suffices for 81-215 tickets, in EU15, for 472. Given that population wealth is increasing much more rapidly in the CEE region than in Western Europe, upside potential for the number of tickets sold and their price should still be there in the near future.

(PLN m)	2008	2009	2010F	2011F	2012F
Revenue	179.0	211.6	238.7	270.9	317.9
EBITDA	40.2	46.5	54.5	61.6	75.5
EBITDA margin	22.5%	22.0%	22.8%	22.7%	23.7%
EBIT	21.8	30.2	35.6	41.2	53.3
Net profit	17.7	24.4	28.7	35.0	45.5
DPS	0.0	0.0	0.0	0.0	1.3
P/E	28.9	20.9	17.9	14.7	11.3
P/CE	14.2	12.5	10.8	9.3	7.6
P/BV	3.3	2.8	2.4	2.1	1.9
EV/EBITDA	14.9	12.8	9.4	8.1	6.6
DYield	0.0%	0.0%	0.0%	0.0%	3.4%

Cinema City International

Market Environment

Profile

Cinema City International is the fifth largest cinema chain in Europe, and ranks number one in the CEE region. The company is present in six countries: Poland, Israel, Czech Republic, Hungary, Bulgaria, and Romania, where it runs a combined 69 theaters with 676 movie screens. Cinemas are the main source of revenues for CCI (81.5% of 2009 sales), including ticket sales (53.1% of 2009 revenues), advertising (11.5%), and snacks (16.9%). Additional revenues (6.6% of the revenue total in 2009) are derived from distribution of films (CCI is the exclusive distributor for Disney in its five markets), and videos and DVDs. Moreover, CCI generates profits from real-estate development, most notably in Bulgaria, where it builds shopping centers, sells them, and leases back space for its multiplexes. Thanks to the sale in 2009 of a 30% stake in the Mall of Plovdiv, Bulgaria, for ca. EUR 23.0m, the real-estate business accounted for as much as 11.9% of the year's total revenues. After a number of similar deals completed this year, the segment's share in future revenues is expected to decrease.

Revenue breakdown by source



Source: Cinema City International

Poland

Poland is Cinema City's primary market, generating 50.0% of total annual revenues (55.6% after adjustment for last year's sale of the Mall of Plovdiv) from 28 cinemas with 316 screens (including 102 3D screens) and 66,000 seats. In keeping with the strategic focus on metropolitan areas with populations over 100,000, of Cinema City's 17 countrywide locations, 10 movie theaters are based in Poland's two largest cities, Warsaw (6) and Krakow (4). CCI is the local market leader in terms of the number of screens and ticket sales (with 15.4 million tickets sold in 2009). Its main rivals are Multikino, with 22 multiplexes and 196 screens, and Helios with 26 theaters (24 multiplexes and 2 traditional cinemas) and 140 screens. While Multikino's geographic focus is also mainly metropolitan (the company has only recently started considering moving into smaller towns as well), Helios is based primarily in towns with populations between 50 and 200 thousand. Helios sold 7.7 million tickets last year, compared to Multikino's 9.6 million admissions. Both of CCI's competitors are set to receive backing from major media companies; Multikino's majority shareholder is ITI, which also controls TV broadcaster TVN, and Helios is waiting for approval by the anti-trust authorities of its takeover by Agora. Other players, including independent one-screen cinemas, sold a combined 6.5 million tickets last year.

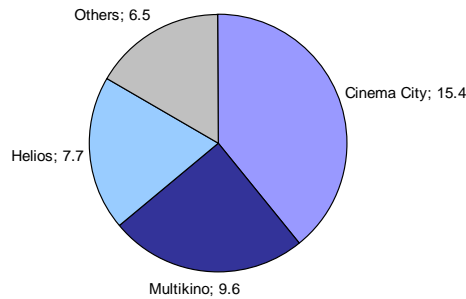
CCI's revenue breakdown by country



Source: Cinema City International

39.2 million movie tickets were sold in Poland in 2009, marking a 16% increase from 2008. In spite of such rapid growth, with annual per-capita ticket sales at 1.0, the country is still lagging behind Western Europe (with a 2009 median of 2.2 tickets per head), as well as Central Europe (1.1). In addition to cinema operation, Cinema City also runs an advertising agency (New Age Media), selling ad time and space inside the company's own multiplexes as well as other chains, including Helios. We do not expect this arrangement to change after Helios is taken over by Agora which, we believe, lacks the resources and know-how to take over movie-theater advertising. In 2009, New Age Media had a 71% market share.

2009 ticket sales in Poland (millions of tickets)

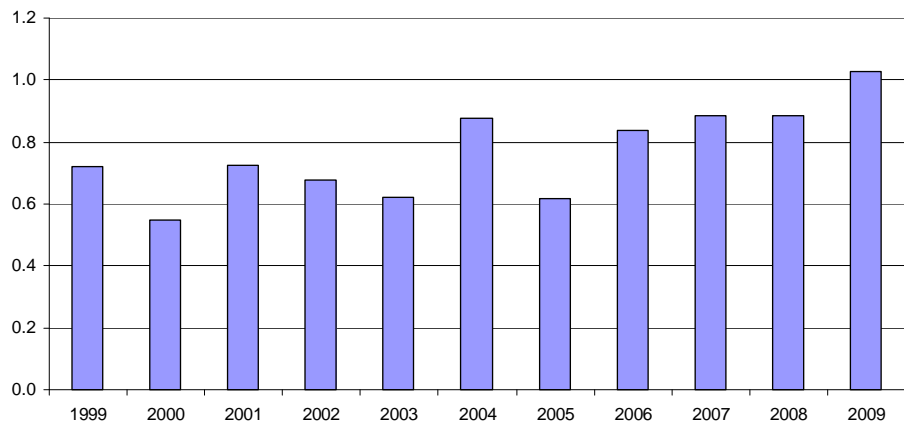


Source: Cinema City, Agora

Cinema City is the Polish distributor for many major studios, including Disney and Spyglass. In this capacity, the company's role boils down to managing a marketing budget allocated by the customer, and, with its own distribution-related expenses at a minimum, CCI's operational risk exposure is minimal, and the gross margins average a modest 6%.

CCI's Polish real-estate business operates under the name of IT Development, and it owns or partially owns five retail establishments housing Cinema City theaters.

Per-capita film ticket sales in Poland



Source: Media Salles, Eurostat

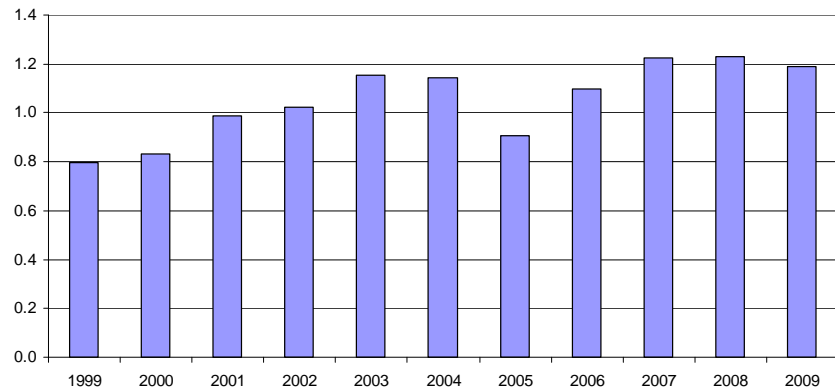
Czech Republic

CCI's Czech operations comprise 46 movie screens in five locations, including Prague (3), Plzen, and Pardubice, with a total of 8.9 thousand seats. The Czech market is much more competitive than Poland, with five operators vying for market share, led by CineStar which owns 38% of the country's multiplex screens after a 2009 acquisition of the Village Cinemas chain. CineStar's 11 movie theaters (with 83 screens and 14,700 seats) are widely distributed all over the Czech Republic, with only two based in Prague. Ranking second is Palace Cinemas, with a 35% market share represented by 60 screens in 7 locations (four in Prague, two in Brno, and one in Usti nad Labem), and over 12.9 thousand seats. In 2009, the operator sold over 3.1 million tickets (24.8% market share).

Cinema City is the number three cinema chain in the Czech Republic. As owner of 20% of all multiplex screens, it sold 1.65 million tickets in 2009, translating into a 13.2% market share. Other minor players include Kineapolis (5%) and Intersonic (4%).

Czech movie ticket sales totaled 12.5 million in 2009 after a 3.3% decline from 12.9 million in 2008, making for average per-capita sales of 1.2.

Per-capita film ticket sales in Czech Republic



Source: Media Salles, Eurostat

CCI's Czech operations include a local branch of New Age Media and, until recently, a DVD distribution business, which has recently been discontinued because of weak sales (the operations generated a EUR 0.3m operating loss last year).

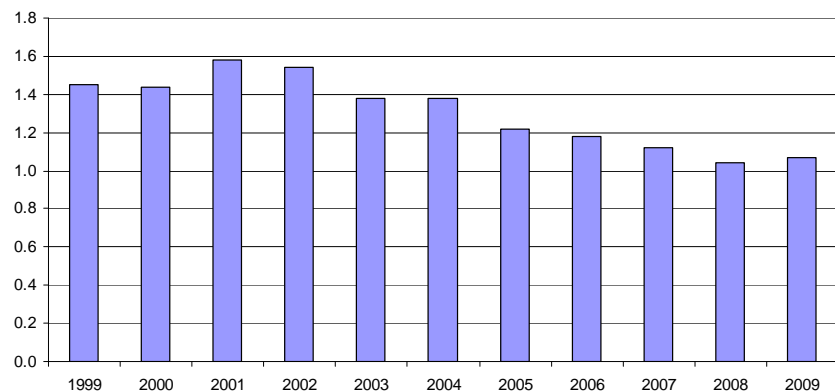
After adjustment for real-estate sales, the Czech market's contribution to CCI's 2009 sales amounted to 5.6%.

Hungary

The Hungarian multiplex market is dominated by two players: Cinema City (53% market share) and Palace Cinemas (42%). The former operates 13 cinemas with 115 screens and 20.5 thousand seats, and the latter, which is also CCI's rival in the Czech Republic, runs 11 theaters with 91 screens and 19.4 thousand seats. Palace Cinemas has eight of its cinemas (81 screens) based in Budapest, and runs only three theaters outside of the capita city (in Kaposvar, Tatabanya, and Nyiregyhaza). In turn, Cinema City has only two locations in Budapest, with the rest of the theaters distributed across Hungarian towns with 50-200 thousand populations.

Although smaller, Palace Cinemas is the Hungarian sales leader with over 6 million tickets sold in 2009. Together with Cinema City's 3.8 million admissions during the same year, the two market leaders accounted for 93% of the country's movie-ticket sales total of 10.6 million (1.1 per capita), which was 2.4% higher than in the year before after the first increase since 2001. Hungary's third-largest cinema chain is Budapest Film, which operates one multiplex in Budapest and 5 traditional cinemas with 13 screens.

Per-capita film ticket sales in Hungary



Source: Media Salles, Eurostat

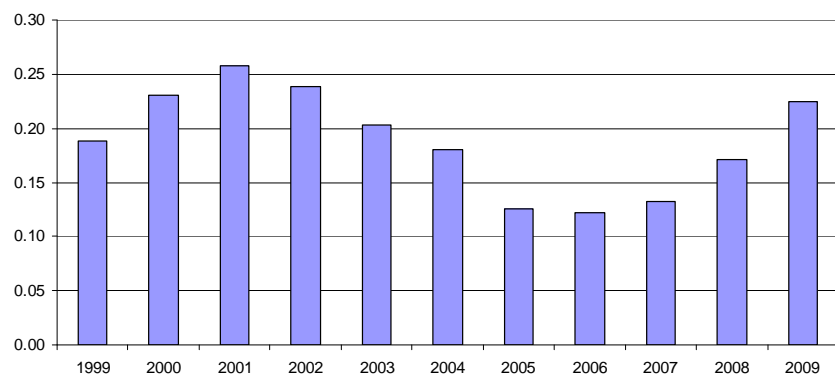
Cinema City's Hungarian operations also include a local branch of New Age Media, and, until recently, film and DVD distribution. CCI decided to discontinue DVD sales as of mid-2010 due to weak sales and loss of one of the film-studio customers, but it continues to distribute films. The Hungarian operations generated 12.1% of CCI's adjusted 2009 sales.

Romania

In Romania, Cinema City operates 7 theaters with 72 movie screens and 13.2 thousand seats. The largest, 20-screen multiplex is located in Bucharest, and the other six cinemas are in cities with populations ranging between 170 and 300 thousand. CCI's only Romanian competitor is Hollywood Multiplex Romania which owns a 10-screen multiplex in Bucharest and a 5-screen theater in Oradea. Other than that, Romanian moviegoers have a choice of about 70 traditional cinemas. Last year's ticket sales in Romania amounted to 5.0 million (0.2 per capita), representing a substantial, 31.6% increase from 2008. CCI's share in the total sales was 30.7%.

The company's other Romanian operations include an advertising agency and, since recently, film distribution. Romania accounted for 4.1% of CCI's adjusted 2009 sales.

Per-capita film ticket sales in Romania



Source: Media Salles, Eurostat

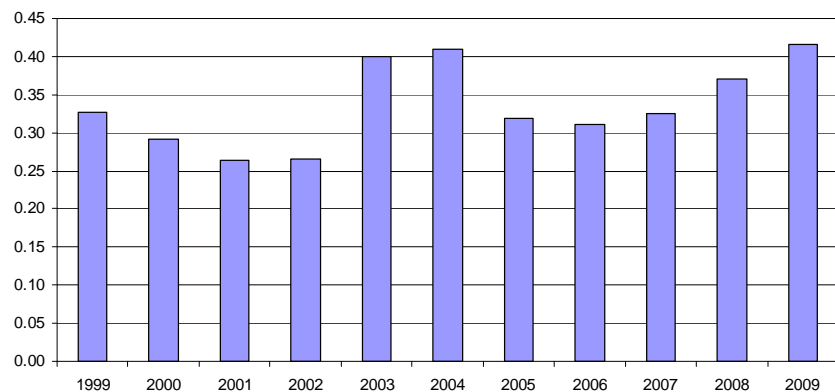
Bulgaria

In Bulgaria, Cinema City operates two multiplexes, one in Sofia and one in Plovdiv, with a combined 24 screens and 4.6 thousand seats. Its main local rival is Arena, with six multiplexes and two miniplexes offering a total of 69 screens. Three of the Arena multiplexes (40 screens) are in Sofia, and the rest are located in Varna (2), Stara Zagora, Plovdiv, and Veliko Turnovo. Bulgarian moviegoers purchased a total of 3.2 million tickets in 2009 (0.4 per head), including 0.94 million from CCI (giving the company a 29.8% market share).

CCI's other Bulgarian operations include an advertising agency. Until the end of the first quarter, the company was also building shopping centers in Stara Zagora and Ruse, which it has since sold (read on for details).

Bulgaria accounted for 3.5% of CCI's 2009 adjusted sales.

Per-capita film ticket sales in Bulgaria



Source: Media Salles, Eurostat

Israel

In Israel, CCI operates under two names: Rav-Chen and Planet, because the name "Cinema City" had been reserved by one of its local competitors. CCI, with 110 screens in 15 theaters (of which nine are based in Tel-Aviv), is one of the two dominant market players next to Globus, which operates 14 theaters with 96 screens. Other local cinema chains include Lev Cinemas and "the other" Cinema City. CCI's 2009 Israeli sales amounted to 4.1 million tickets, representing an increase by 21.8% vs. 2008. Total movie-ticket sales in the country amounted to 9.9 million (marking an 8.8% year-on-year increase), with CCI achieving a 41% market share. Per-capita sales stood at 1.3 tickets.

CCI's Israeli operations include real-estate development, an advertising agency, and film and DVD distribution. Film distribution is run through a subsidiary company called Forum Film, whose main competitor is Globus, the exclusive distributor for Warner and UIP.

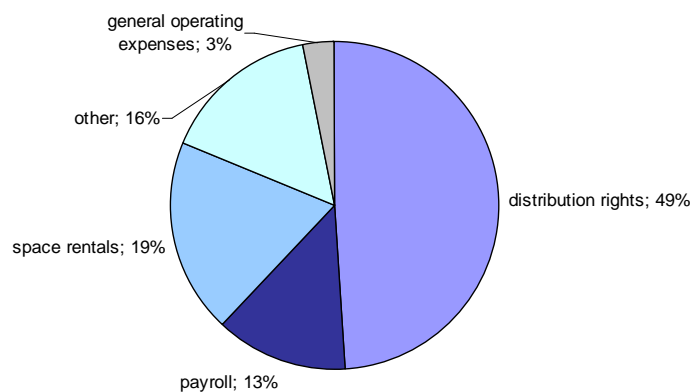
Israel contributed 19.2% of CCI's adjusted consolidated revenues in 2009.

Business Model – Cost Structure

Cinema City has implemented the same business model in all of its markets. The main course of costs for the company are distribution rights, the prices of which are determined as a percentage (40-50% on average) of box office revenues. Since film promotion is handled by the movie producers and distributors, CCI bears a minimum risk of losses in case a title is a box-office flop. The second major cost component are space leases. CCI rents movie-theater space in all of its countries based on standard 10-year leases renewable for three additional five-year periods, at prices that, in most cases, are determined based on the rental floor area. A few of the leases also provide for the landlord's share in ticket revenues, but the sales thresholds are so high that the cost impact of these clauses is negligible. In most countries (about 70% of CCI's total rental space), rent is charged in euros, and in ca. 30% of the theaters lease prices are quoted in US dollars. Rental rates are annually adjusted to reflect changes in the Euro-Zone CPI. Historically, space rental has accounted for 14% of CCI's consolidated revenues.

The third key cost component are salaries, which represent about 10% of consolidated sales. Payroll expenses are incurred in local currencies. Other main cost drivers include electricity, security, and cleaning services, and other shopping-center tenant fees.

CCI cost breakdown



Source: Cinema City

Financial Standing

Q1 2010 Results

Q1 2010 was a very successful one for Cinema City, thanks primarily to cinema operations, where revenue increased by 60.6% y/y, from EUR 40.1m to EUR 64.4m. The key source of growth was an increase in the number of tickets sold (from 6.91m to 9.33m) and an increase in their average price (from EUR 3.86 to EUR 4.94, i.e. by 27.9%). Adjusted for F/X rate fluctuations, average ticket price increased by ca. 17.7%, while growth in the number of tickets sold adjusted for expansion in CCI's cinema network figured to 19.3%. This adjusted double-digit growth in prices and tickets was affected by

the calendar of film releases: Q1'10 saw the release of such movies as *Avatar* and *Alice in Wonderland*, which were typically shown in the more expensive 3D showings.

The distribution segment also performed well, with revenues increasing from EUR 3.0m to EUR 5.1m, and operating loss reduced from EUR 0.4m to EUR 0.1m. The improvement was driven by an increase in the number of movies distributed, including *Alice in Wonderland*.

Property development revenue shrank from EUR 22.7m to EUR 0.6m, with EBIT decreasing from EUR 5.6m to EUR 0.2m. The decline was a consequence of the sale of a 30% stake in the Mall of Plovdiv, which took place in Q1'09 and brought about PLN 21.5m in revenue and PLN 6.0m in EBITDA.

Broken down by geography, Poland was the market that contributed the most to sales growth, with revenues increasing from EUR 26.8m to EUR 37.4m. Sales also increased in Israel, to EUR 13.7m (+86.5% y/y), Romania, to EUR 5.4m (+270.6% y/y), Hungary, to EUR 7.4m (+59.9% y/y) and the Czech Republic (+64.8% y/y). The only market to see a decline was Bulgaria (EUR 2.2m, -90.6% y/y), but this was merely a consequence of the abovementioned sale of CCI's stake in the Mall of Plovdiv.

Revenue growth was accompanied by a considerable increase in the gross margin (from 21.9% to 27.0%). Selling, general and administrative costs increased from EUR 2.8m to EUR 3.6m. As a result, the Company's EBIT figured to EUR 15.4m vs. EUR 11.6m in Q1 2009. Finance losses figured to EUR 0.7m, compared to -EUR 0.9m in Q1 2009, which, combined with a higher effective tax rate (14.4% vs. 5.2% a year ago) resulted in a net profit of EUR 12.7m vs. EUR 9.7m then.

Earnings for Q1'10

(EUR m)	Q1 2010	Q1 2009	Change	2010F	2009	Change
Revenue	70.1	65.9	6.4%	238.7	211.6	12.8%
EBITDA	20.3	15.4	32.0%	54.5	46.5	17.0%
Margin	28.9%	23.3%	-	22.8%	22.0%	-
EBIT	15.4	11.6	31.9%	35.6	30.2	17.9%
Gross profit	14.6	10.7	36.0%	34.0	28.2	20.4%
Net income	12.7	9.7	30.9%	28.9	24.4	18.3%

Source: Cinema City International

Sale of Bulgarian Property Development Business

In April, Cinema City sold its property-development projects in Bulgaria to Israel Theatres Real Estate Holding B.V. and Pan-Europe Finance B.V., subsidiaries of Israel Theatres, which is the parent company of CCI's parent company. The projects sold were the Mall of Russe and the Mall of Stara Zagora, as well as the company that managed them. The total price CCI will receive is EUR 91.2m, of which EUR 76.2m was paid when the deal was closed, and the remaining EUR 15.0m will be paid within 9 months of the date when the Mall of Ruse becomes operational, but no later than within 18 months of the transaction. In addition, under the agreement Cinema City will participate in profits made by Israel Theatres from transactions involving these properties until 2014 (72.5% of all income made by the buyers within one year of the transaction, 62.5% of all profits made between the first and second anniversary of the transaction and 25% of all profits made between the second anniversary and the end of 2014). In the second quarter, the Company will recognize ca. EUR 3.5m in additional EBITDA from the transaction. In addition, the sale of these assets will lead to a sharp reduction in CCI's net debt (EUR 93.5m at the end of Q1'10).

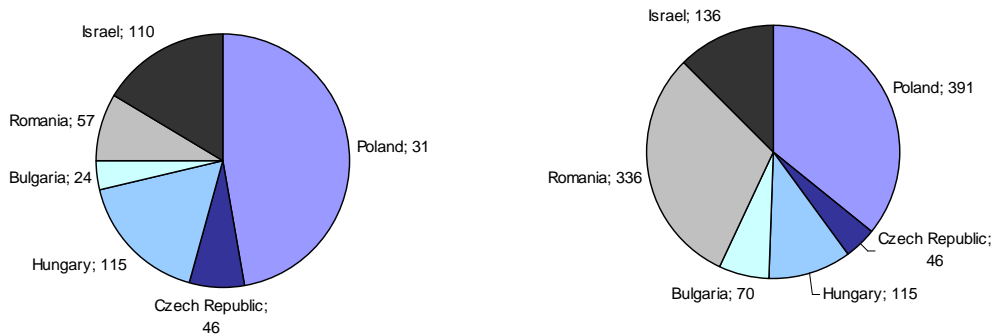
Future Outlook

Further Expansion of the Theater Network

Cinema City International is currently pursuing an extensive investment program with a view to reaching 1069 screens by the end of 2013. Under the program, CCI is going to add 41 new theaters to its network, 28 of them in Romania, which will bring the total number of CCI's screens in the country to 336 from 72 at the end of 2009. Another market where CCI is going to significantly increase its presence will be Bulgaria (46 screens). New cinemas are also planned for Poland (75 screens in 7 locations) and Israel (1 new cinema with 26 screens). No network expansion is planned at the moment for the Czech Republic and Hungary. In 2010, CCI should add ca. 80 screens, mostly in Romania.

In addition to the expansion of its theater network in Romania and Bulgaria, CCI has launched a distribution business in these countries.

Current vs. planned geographical structure of CCI's cinema network

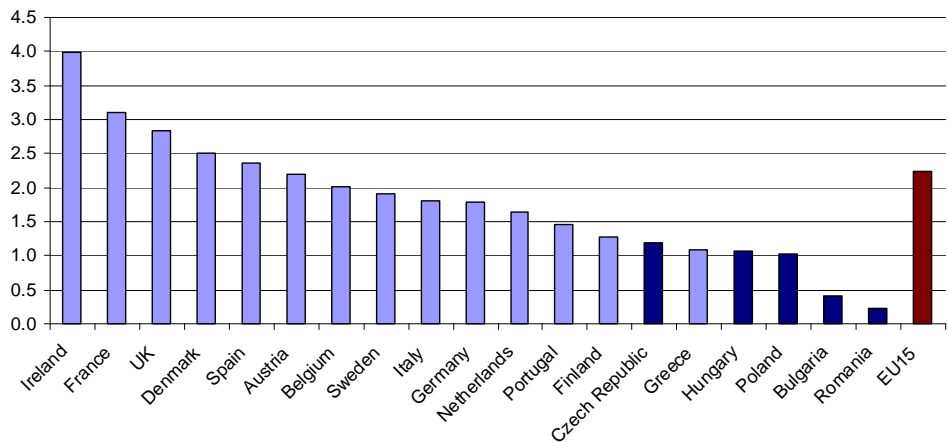


Source: Cinema City International

CEE's Catching Up with the West

All the markets where CCI is present are quite far behind "Old EU" countries as far as the consumption of cinema entertainment is concerned. We believe there are three basic factors that determine per-capita ticket sales: development of the cinema infrastructure, geographical dispersion of the population and average salary. The average salary is also the main determinant of the average ticket price, which is another factor with strongly affects our forecasts of the Company's future revenues.

Per-capita ticket sales

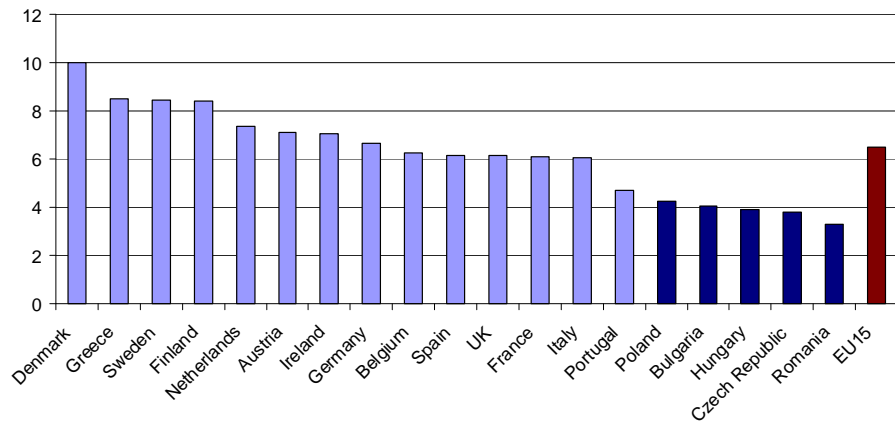


Source: Media Salles

Ticket Prices: Low or High?

The average movie ticket price in the Central and Eastern Europe countries where Cinema City is active is much lower than the average for Western Europe. In EU15, the average ticket price was EUR 6.47. In the CEE countries penetrated by CCI, the negative deviation vs. this average was between -49.0% (Romania) to -34.6% (Poland).

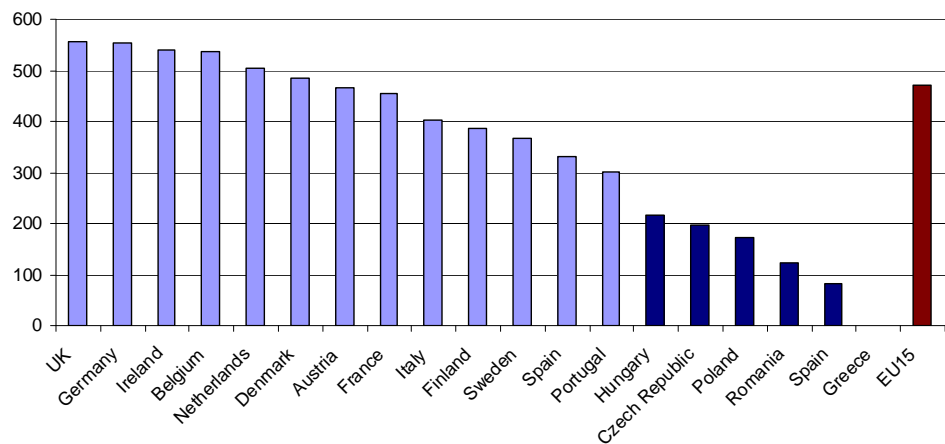
Average ticket price in EU15 and CCI's markets



Source: Media Salles

If, however, we compare ticket pricing with average salaries attained by the inhabitants of the individual countries, we will find that such disproportions not only are justified, but in fact do not go far enough to offset the lower wealth of the Poles, Czechs, Romanians or Bulgarians. The average salary in Bulgaria amounts to a mere 7.5% of the average salary in the old EU. In Hungary, which look the best under such a comparison, the average salary amounts to 26% of the average salary in EU15. As a result, the average citizen of the Old EU can buy 472 tickets per month, and the average Bulgarian just 18% of this number, the average Romanian, 22%, and the average Hungarian, 46%.

Number of tickets purchasable for average salary, EU15 and CCI's markets



Source: Media Salles, Eurostat

The discrepancies are somewhat less clear when we substitute CCI's average prices for average prices in the market. In the Czech Republic, CCI sells tickets with a premium to market prices; in its other markets, with a discount of 5-15%.

Nonetheless, the discrepancy between the price of the Company's tickets and average ticket prices in EU15 relative to population income remains high and constitutes an important barrier that reduces upside potential for ticket prices.

The discrepancy should be reduced with time as CEE countries enjoy faster GDP growth, which entails much faster salary growth. Still, even if we were to assume that Bulgarian salaries will grow at 10% per year, and Cinema City's ticket pricing will not change, the average Bulgarian will not be able to buy as many tickets per month as the average denizen of EU15 until 17.5 years elapse. Under the same assumptions, the average Hungarian will reach the same level in 6.5 years.

Average price of CCI's tickets relative to market averages

	CCI	Market	Difference
Poland	4.03	4.24	-4.9%
Czech Republic	4.75	3.79	25.3%
Hungary	3.34	3.92	-14.8%
Bulgaria	3.75	4.07	-7.9%
Romania	3.06	3.30	-7.4%

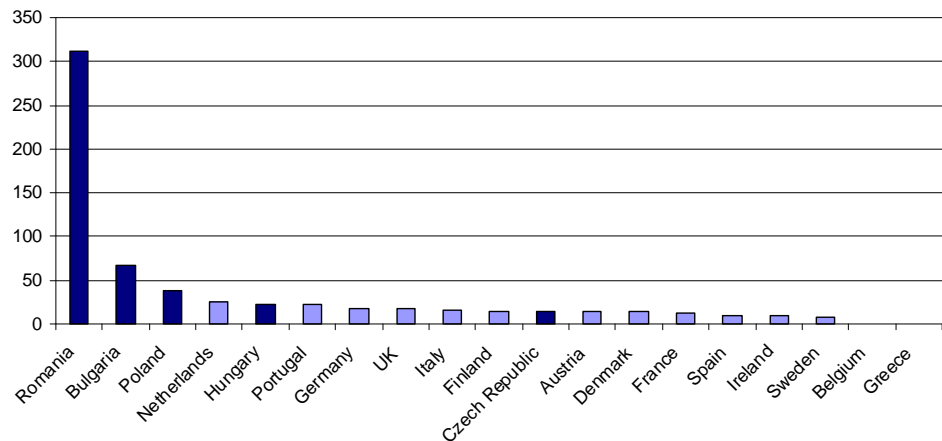
Source: CCI, Media Salles

Despite these pricing discrepancies, we do not expect CCI's ticket prices to decline. In fact, we expect further growth, driven by increasing popularity of the more expensive 3D showings. The growth rate will, however, be much lower than the rate at which the wealth of these societies will grow. Moreover, high ticket prices will mean that, ceteris paribus, the equilibrium level of per-capita ticket sales will be much lower in CEE countries than in EU15.

Cinema Infrastructure

Another factor that has a significant impact on ticket sales in a given market is infrastructure. In Western Europe, in 2007 there were between 8 and 17 thousand people per movie screen, with the exception of Portugal (22 thousand) and the Netherlands (26.3 thousand). The Czech Republic is the closest CEE country to Western standards (15 thousand people per screen), followed by Hungary (23 thousand) and Poland (38 thousand). Bulgaria and Romania have considerable infrastructure shortages, with 67 thousand and 312 thousand people per screen, respectively.

Number of people (in thousands) per cinema screen



Source: Cinema City International

Geographical Structure of the Population

In demographic terms, one factor that favors the expansion of the cinema network and ticket sales is urbanization. In order for a multi-screen theater to be profitable, there need to be at least 50,000 inhabitants in the area, though most cinema networks focus on cities with 100,000 or more inhabitants. In this context, the best conditions are prevalent in Bulgaria, with 54.7% of the population living in cities of 50,000 inhabitants or more, and 34.3% in cities with 100,000 inhabitants or more. On the other end of the scale is the Czech Republic, where 31.7% of the population live in cities of 50,000 or more (23.9% in cities of 100,000 or more).

Given these numbers, as well as the ratios of population to movie screens, the Company's strategy focused on cinema network expansion in Bulgaria, Romania and Poland appears to be warranted.

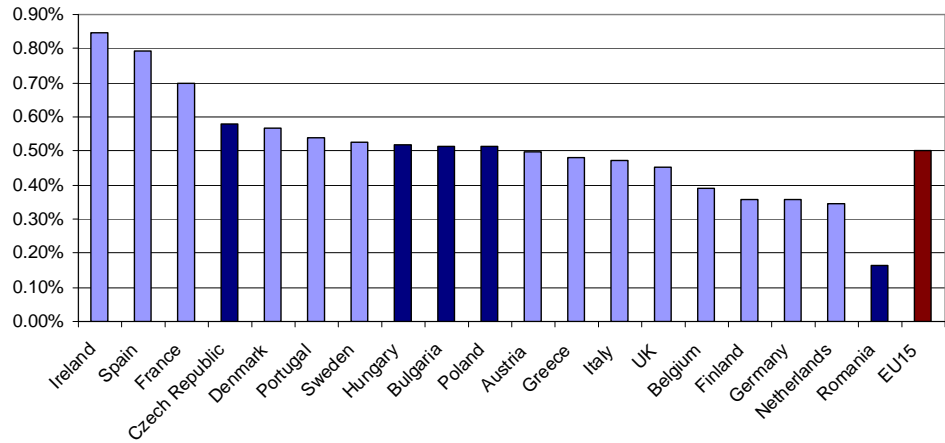
Basic Assumptions

The average citizen of the old EU spends 0.50% of their monthly salary on movie tickets per year, with a range from 0.35% in the Netherlands to 0.85% in Ireland. The spending

level is similar in Poland, Czech Republic, Bulgaria and Hungary. Only Romania is far behind the EU average (0.17% of the monthly salary).

Given the Czech Republic's and Hungary's levels of urbanization, as well as the fact that their cinema infrastructure is already quite extensive, we expect these ratios to remain flat in those countries over our forecast horizon; the only factor determining the size of these countries' cinema markets will be the increase in the wealth of the local societies.

Proportion of monthly income spent on cinema entertainment (per year)



Source: Media Salles, Eurostat

In our opinion, in Poland we might observe a slight increase in spending on cinema entertainment thanks to the continued expansion of infrastructure, mostly in smaller cities. We assume that the proportion of income spent on cinema entertainment will increase from the current 0.51% to 0.56%.

With a high share of population living in big cities, and with continued expansion of infrastructure, Bulgaria seems to have further upside potential for cinema spend relative to the average salary, despite its having reached the Western European average in this respect. We expect this level to increase from the current 0.51% to 0.58% within our forecast horizon.

In our opinion, Romania offers the best perspectives for growth. We expect the country to exceed the average European level of yearly spending on cinema entertainment and reach 0.58% of the average monthly salary, i.e. three times the current level.

In addition to its progress towards the potentially attainable share of households budgets, another crucial factor that will determine the growth of cinema entertainment in Central and Eastern Europe is the gradual increase in population wealth. In our model, we assume that within our forecast horizon the average salaries in Romania and Bulgaria will grow in nominal terms at 8% and 9%, respectively, while the growth rate we project for Poland, Czech Republic and Hungary is 6%. We expect Israeli salaries to grow at 2.5% per year in nominal terms.

Valuation

Valuation summary

	PLN m	Weight	9MTP
DCF Analysis	2035.1	50%	
Relative Valuation	1743.9	50%	
incl.			
based on P/E	1830.8	50%	
based on EV/EBITDA	1657.1	50%	
Average	1889.5		2045.4
per share			39.9

**Assumptions:**

1. Our earnings forecast horizon extends from FY2010 to FY2019.
2. In the forecast horizon and beyond, our assumed risk-free rate is 6.0% (reflecting the yield on 10Y T-bonds in the countries where the Company is present).
3. Expected FCF growth rate after the last year of the forecast horizon is 3.0%.
4. Net debt is as at year-end 2009.

Foreign-exchange assumptions

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
EUR/PLN	3.90	3.90	3.90	3.90	3.90	3.90	3.90	3.90	3.90	3.90
EUR/CZK	26.45	26.45	26.45	26.45	26.45	26.45	26.45	26.45	26.45	26.45
EUR/HUF	280.32	280.32	280.32	280.32	280.32	280.32	280.32	280.32	280.32	280.32
EUR/BGN	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96
EUR/RON	4.24	4.24	4.24	4.24	4.24	4.24	4.24	4.24	4.24	4.24
EUR/ILS	5.47	5.47	5.47	5.47	5.47	5.47	5.47	5.47	5.47	5.47

Relative Valuation

We compared the EV/EBITDA and P/E multiples of CCI and its foreign peers as estimated for the years 2010, 2011, and 2012. The forecast years are given 25%, 45%, and 30% weights respectively.

P/E and EV/EBITDA for cinema operators

	Price	EV/EBITDA			P/E		
		2010F	2011F	2012F	2010F	2011F	2012F
Cineworld Group PLC		6.9	6.6	6.2	11.3	10.2	9.3
Carmike Cinemas Inc		5.9	5.4	5.4	18.1	9.3	10.4
Cinemark Holdings Inc		6.4	6.0	5.8	13.1	11.8	11.1
Cinemax India LTD		7.4	10.9	9.3	10.1	9.4	8.8
Kinopolis		6.7	6.6	-	12.7	12.0	-
Major Cineplex Group		7.4	6.7	6.1	18.9	15.9	13.8
National Cinemedia Inc		7.5	6.9	6.4	25.4	21.9	19.4
PVR LTD		14.2	6.8	5.3	67.2	15.1	11.4
Regal Entertainment Group		7.0	6.5	6.4	22.8	19.6	19.2
Maximum		14.2	10.9	9.3	67.2	21.9	19.4
Minimum		5.9	5.4	5.3	10.1	9.3	8.8
Median		7.0	6.6	6.1	18.1	12.0	11.2
Cinema City	39.0	9.4	8.1	6.6	17.9	14.7	11.3
Premium / discount		35.6%	23.4%	8.0%	-0.9%	22.6%	0.8%



DCF Valuation Model

(EUR m)	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2019+
Sales revenue	238.7	270.9	317.9	349.5	363.5	376.7	389.8	402.3	414.9	427.4	
Change	12.8%	13.5%	17.4%	9.9%	4.0%	3.6%	3.5%	3.2%	3.1%	0.0%	
EBITDA	54.5	61.6	75.5	86.4	90.8	94.7	98.3	101.6	104.7	107.0	
EBITDA margin	22.8%	22.7%	23.7%	24.7%	25.0%	25.1%	25.2%	25.2%	25.2%	25.0%	
D&A expenses	18.8	20.5	22.2	22.8	23.5	24.0	24.6	25.1	25.6	25.6	
EBIT	35.6	41.2	53.3	63.6	67.3	70.6	73.7	76.4	79.1	81.4	
EBIT margin	14.9%	15.2%	16.8%	18.2%	18.5%	18.8%	18.9%	19.0%	19.1%	19.0%	
Tax rate on EBIT	6.8	7.8	10.1	12.1	12.8	13.4	14.0	14.5	15.0	15.5	
NOPLAT	28.9	33.3	43.2	51.5	54.6	57.2	59.7	61.9	64.1	65.9	
CAPEX	-31.5	-32.2	-34.0	-33.6	-31.5	-29.3	-27.6	-25.7	-26.5	-25.6	
Working capital	-13.9	-11.0	-15.0	-3.0	-1.6	-1.6	-1.7	-1.4	-1.4	-1.5	
Other	78.0	15.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCF	80.3	25.6	16.4	37.7	44.9	50.3	55.0	59.9	61.8	64.5	66.4
WACC	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	
discount factor	94.9%	85.5%	77.0%	69.4%	62.5%	56.3%	50.7%	45.7%	41.2%	33.4%	
PV FCF	76.2	21.9	12.6	26.2	28.1	28.4	27.9	27.4	25.4	308.1	

WACC	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%
Cost of debt	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Risk-free rate	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Risk premium	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Effective tax rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	0.0%
Net debt / EV	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cost of Equity	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%
Risk premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Beta	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

FCF growth after the forecast horizon	3.0%	Sensitivity analysis					
Terminal value	3 238.1	FCF growth in perpetuity					
Present value of the terminal value (PV TV)	1 201.5	1.0%	2.0%	3.0%	4.0%	5.0%	
Present value of FCF in the forecast horizon	1 162.5	WACC +1.0pp	33.7	29.1	29.4	31.0	32.2
Enterprise value (EV)	2 364.0	WACC +0.5pp	35.7	37.6	40.1	43.1	47.1
Net debt	328.9	WACC	37.9	40.2	43.0	46.7	51.5
Other non-operating assets	0.0	WACC -0.5pp	40.4	43.1	46.4	50.8	56.7
Minority interests	0.0	WACC -1.0pp	43.2	46.3	50.3	55.5	62.9
Equity value	2 035.1						
Number of shares (millions)	51.2						
Equity value per share (PLN)	39.7						
Cost of equity (9M)	8.3%						
Target Price	43.0						

EV/EBITDA('10) for the target price	11.1
P/E('10) for the target price	19.8
TV to EV	51%

**Income Statement**

(EUR m)	2008	2009	2010F	2011F	2012F	2013F	2014F
Sales revenue	179.0	211.6	238.7	270.9	317.9	349.5	363.5
<i>Change</i>	13.7%	18.2%	12.8%	13.5%	17.4%	9.9%	4.0%
Sales in movie theaters	154.7	172.5	216.8	252.4	298.1	328.4	341.3
Distribution	14.4	13.9	15.9	16.8	18.1	19.3	20.4
Video cassettes and DVDs	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	9.9	25.2	6.0	1.7	1.7	1.8	1.8
Operating expenses	147.2	170.4	190.1	215.3	248.0	268.0	277.5
Gross profit	31.8	41.2	48.6	55.6	70.0	81.5	86.0
Selling, general and administrative costs	9.9	11.0	13.0	14.5	16.6	17.9	18.6
EBIT	21.8	30.2	35.6	41.2	53.3	63.6	67.3
<i>Change</i>	13.2%	38.4%	17.9%	15.5%	29.6%	19.2%	5.9%
<i>EBIT margin</i>	12.2%	14.3%	14.9%	15.2%	16.8%	18.2%	18.5%
Profit/loss on financial activity	-2.6	-1.9	-1.6	0.3	0.6	1.0	1.8
Loss on divestment, write-offs	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0
Gross profit	19.1	28.2	34.0	41.5	54.0	64.6	69.2
Tax	-1.3	-2.5	-5.1	-6.2	-8.1	-9.7	-10.4
Minority interests	-1.5	-0.6	0.2	0.3	0.4	0.5	0.7
Discontinued operations	-1.5	-1.9	0.0	0.0	0.0	0.0	0.0
Net income	17.7	24.4	28.7	35.0	45.5	54.4	58.1
<i>Change</i>	6.2%	38.3%	17.5%	21.9%	30.0%	19.7%	6.8%
<i>Margin</i>	9.9%	11.5%	12.0%	12.9%	14.3%	15.6%	16.0%
D&A expenses	18.4	16.3	18.8	20.5	22.2	22.8	23.5
EBITDA	40.2	46.5	54.5	61.6	75.5	86.4	90.8
<i>Change</i>	15.8%	15.7%	17.0%	13.1%	22.6%	14.5%	5.1%
<i>EBITDA margin</i>	22.5%	22.0%	22.8%	22.7%	23.7%	24.7%	25.0%
Shares at year-end (millions)	50.8	50.8	51.2	51.2	51.2	51.2	51.2
EPS	1.3	1.9	2.2	2.7	3.4	4.1	4.4
CEPS	2.8	3.1	3.6	4.2	5.1	5.9	6.2
ROAE	11.4%	14.5%	14.7%	15.3%	17.5%	18.8%	18.0%
ROAA	6.5%	7.5%	8.0%	9.1%	11.0%	12.3%	12.2%

**Balance Sheet**

(EUR m)	2008	2009	2010F	2011F	2012F	2013F	2014F
ASSETS	301.6	349.7	371.2	401.5	423.6	458.7	491.4
Fixed assets	216.1	247.7	218.0	229.7	241.6	252.4	260.4
Property, plant and equipment	182.5	201.8	209.4	216.4	223.5	230.0	234.8
Intangible assets	1.3	1.0	6.1	10.8	15.5	19.8	23.0
Investment property	29.4	42.3	0.0	0.0	0.0	0.0	0.0
Foreign-exchange contracts	1.9	0.1	0.1	0.1	0.1	0.1	0.1
Deferred-tax assets	1.1	2.5	2.5	2.5	2.5	2.5	2.5
Current assets	85.5	102.0	153.2	171.8	182.0	206.3	231.0
Inventories	4.9	5.1	4.7	5.4	6.4	7.0	7.4
Trade debtors	16.4	15.6	17.5	19.9	23.4	25.7	26.7
Other receivables	1.1	0.7	1.4	1.5	1.7	1.9	1.9
Prepayments	14.3	18.5	20.9	23.7	27.8	30.6	31.8
Other assets	36.1	39.6	0.2	0.2	0.2	0.2	0.2
Bank deposits	0.9	0.2	0.2	0.2	0.2	0.2	0.2
Cash	11.8	22.4	108.3	120.8	122.4	140.8	162.8

(EUR m)	2008	2009	2010F	2011F	2012F	2013F	2014F
LIABILITIES	301.6	349.7	371.2	401.5	423.6	458.7	491.4
Equity	156.5	179.8	210.5	245.8	274.2	306.3	337.9
Share capital	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Reserves	88.0	87.2	89.0	89.0	89.0	89.0	89.0
Retained earnings	71.5	96.1	124.7	159.7	187.7	219.4	250.3
Minority interests	-3.5	-4.0	-3.8	-3.5	-3.1	-2.6	-1.9
Long-term liabilities	76.0	105.6	100.0	100.0	100.0	99.9	99.8
Loans	67.2	93.6	93.6	93.6	93.6	93.6	93.6
Reserves	5.6	7.0	1.4	1.4	1.4	1.3	1.1
Finance leases	1.4	1.2	1.2	1.2	1.2	1.2	1.2
Other	1.8	3.8	3.8	3.8	3.8	3.8	3.8
Short-term liabilities	69.0	64.3	60.7	55.7	49.4	52.4	53.7
Loans	34.2	12.5	12.5	12.5	12.5	12.5	12.5
Trade creditors	13.0	12.7	14.1	16.0	18.4	19.8	20.3
Other liabilities	21.8	39.1	34.0	27.2	18.5	20.1	20.8
Debt	102.8	107.4	107.4	107.4	107.4	107.4	107.4
Net debt	90.0	84.8	-1.1	-13.6	-15.2	-33.6	-55.6
(Net debt / Equity)	57.5%	47.1%	-0.5%	-5.5%	-5.5%	-11.0%	-16.4%
(Net debt / EBITDA)	2.2	1.8	0.0	-0.2	-0.2	-0.4	-0.6
BVPS	11.9	13.7	16.0	18.6	20.8	23.2	25.6

**Cash Flows**

(EUR m)	2008	2009	2010F	2011F	2012F	2013F	2014F
Cash flows from operating activities	40.4	57.0	35.5	44.4	52.4	73.8	78.8
Gross profit	19.1	28.2	34.0	41.5	54.0	64.6	69.2
Interest	2.6	1.9	1.6	-0.3	-0.6	-1.0	-1.8
D&A expenses	18.4	16.3	18.8	20.5	22.2	22.8	23.5
Working capital	6.9	16.7	-13.9	-11.0	-15.0	-3.0	-1.6
Tax	-1.3	-2.5	-5.1	-6.2	-8.1	-9.7	-10.4
Other	-5.2	-3.7	0.0	0.0	0.0	0.0	0.0
Cash flows from investing activities	-80.5	-48.2	52.8	-27.6	-29.1	-28.4	-25.4
CAPEX	-47.4	-44.3	-31.5	-32.2	-34.0	-33.6	-31.5
Equity investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	-33.0	-3.9	84.3	4.6	4.9	5.3	6.1
Cash flows from financing activities	43.9	1.9	-2.4	-4.2	-21.7	-27.0	-31.5
Debt	47.9	4.6	0.0	0.0	0.0	0.0	0.0
Stock offering	0.0	0.0	1.8	0.0	0.0	0.0	0.0
Dividends/buy-back	0.0	0.0	0.0	0.0	-17.5	-22.7	-27.2
Interest	-4.1	-2.7	-4.2	-4.2	-4.2	-4.2	-4.2
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in cash	3.7	10.7	85.8	12.5	1.6	18.4	22.0
Cash at end of period	11.8	22.4	108.3	120.8	122.4	140.8	162.8
DPS (PLN)	0.0	0.0	0.0	0.0	1.3	1.7	2.1
FCF	-1.9	16.3	3.7	12.2	18.5	40.3	47.6
(CAPEX / Sales)	26.5%	21.0%	13.2%	11.9%	10.7%	9.6%	8.7%

Market multiples

	2008	2009	2010F	2011F	2012F	2013F	2014F
P/E	28.9	20.9	17.9	14.7	11.3	9.5	8.9
P/CE	14.2	12.5	10.8	9.3	7.6	6.7	6.3
P/BV	3.3	2.8	2.4	2.1	1.9	1.7	1.5
P/S	2.9	2.4	2.2	1.9	1.6	1.5	1.4
FCF/EV	-0.3%	2.7%	0.7%	2.4%	3.7%	8.4%	10.4%
EV/EBITDA	14.9	12.8	9.4	8.1	6.6	5.6	5.1
EV/EBIT	27.5	19.7	14.4	12.2	9.4	7.6	6.8
EV/S	3.4	2.8	2.2	1.8	1.6	1.4	1.3
DYield	0.0%	0.0%	0.0%	0.0%	3.4%	4.4%	5.3%
Price (PLN)							
Shares at year-end (millions)	50.8	50.8	51.2	51.2	51.2	51.2	51.2
MC (PLN m)	1982.6	1982.6	1996.8	1996.8	1996.8	1996.8	1996.8
Equity attributable to minority shareholders (PLN m)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EV (PLN m)	2 331.9	2 311.5	1 992.5	1 943.9	1 937.9	1 866.4	1 781.2



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**List of abbreviations and ratios contained in the report:**

EV – net debt + market value
EBIT – Earnings Before Interest and Taxes
EBITDA – EBIT + Depreciation and Amortisation
P/CE – price to earnings with amortisation
MC/S – market capitalisation to sales
EBIT/EV – operating profit to economic value
P/E – (Price/Earnings) – price divided by annual net profit per share
ROE – (Return on Equity) – annual net profit divided by average equity
P/BV – (Price/Book Value) – price divided by book value per share
Net debt – credits + debt papers + interest bearing loans – cash and cash equivalents
EBITDA margin – EBITDA/Sales

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BUY – we expect that the rate of return from an investment will be at least 15%
ACCUMULATE – we expect that the rate of return from an investment will range from 5% to 15%
HOLD – we expect that the rate of return from an investment will range from -5% to +5%
REDUCE – we expect that the rate of return from an investment will range from -5% to -15%
SELL – we expect that an investment will bear a loss greater than 15%
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