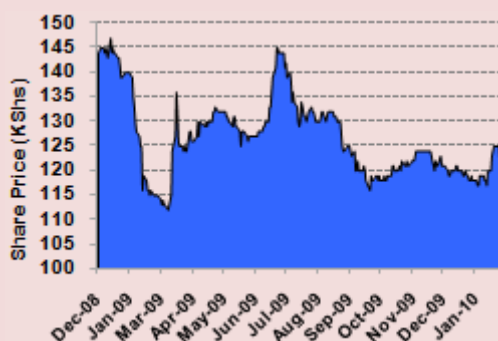


Selected Financial Ratios

Year End December	07A	08A	09E	10E
Sales (mn)	7,686	8,252	8,745	9,637
Gross Profit (mn)	6,056	6,599	6,865	7,517
EBITDA (mn)	1,894	2,204	2,056	2,348
Net Profit (mn)	1,090	1,287	1,159	1,345
EPS (Adjusted)	7.64	9.03	8.12	9.43
Sales Growth %	21.2	7.4	6.0	10.2
EBITDA Growth %	35.2	16.4	-6.7	14.2
EBITDA Margin %	24.6	26.7	23.5	24.4
Earnings Growth %	39.1	18.2	-10.0	16.1
Return on Equity %	30.1	32.0	25.7	27.4
Free CF to Sales %	20.2	9.7	12.0	14.9
Free CF to EV %	7.2	4.1	5.5	6.8
Price to Sales	3.0x	2.5x	1.9x	1.7x

Source: Company data, FIB Research estimates



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Nation Media Group

Commercial and Services Sector | NSE | Publishing | Medium Cap
(pricing in this report is based on 29th January, 2010 closing prices)

Volatility in ad spend to dim as economy breaks into recovery in 2010

Media investors must look at the rate of growth in the economy to judge the potential for ad spend to recover. NMG will continue to bank on its strong balance, high market share and diversification to drive revenues. Going forward investor confidence will be contingent on management reducing the impact of newsprint and utility costs on profit margins while finding bold ways to support the emerging digital division.

Revenue contributions to remain constant in the short term

The newspaper and magazine segment is expected to continue to exert the most influence on group revenue growth as the digital infrastructure is laid out over the course of the next few years.

Regional markets to provide new growth

Penetration statistics for the key media streams internet, television and radio suggest that the EA region still has unexploited potential that can generate revenue consistencies while reducing economic risk exposure.

Cash dividends still offer good returns

NMG's high cashflow, low capex model has enabled shareholders to enjoy superior quality dividend returns over the past few years. NMG still maintains high revenue reserves that could prove lucrative should they choose to employ them for the benefit of shareholders. We project an EPS of Kshs 8.12 in 2009 representing a 10% decline (against the 23% H1 '09 drop) as we see net margins in the second half of 2009 widen.

Stock Data

Price	118.00
52 week range	145-112
Market Cap.	KSh 16.8 bn
Market Cap.	US\$ 221 mn
Equity Beta	1.07
Free Float	46%
Issued Shares	143 mn
EPS (09E)	8.12
P/E (09E)	14.5x
EV/EBITDA (09E)	8.8x
Div Yield (09E)	4.7%

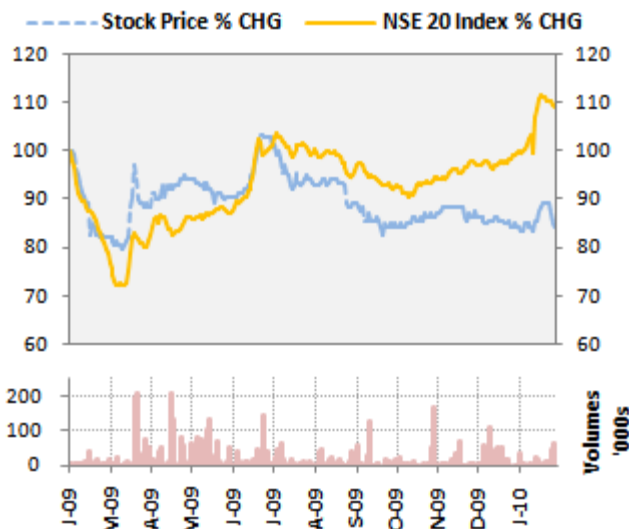


Exhibit 1: Forecast and valuation

Year End (December)	Sales (Kshs mn)	EBITDA (Kshs mn)	Pre-Tax Profit (Kshs mn)	EPS (Kshs) Adjusted	EV/EBITDA (x)	P/E (x)
2005	5,597	1,258	1,011	5.02	10.2x	18.9x
2006	6,339	1,401	1,151	5.49	15.3x	28.5x
2007	7,686	1,894	1,602	7.64	11.6x	21.3x
2008	8,252	2,204	1,910	9.03	8.9x	16.0x
2009E	8,745	2,056	1,718	8.12	8.8x	14.5x
2010E	9,637	2,348	1,993	9.43	7.7x	12.5x

Source: Company data, FIB Research estimates

Brief Summary: Economic recovery to spur growth in ad spend exposure in 2010

The media industry is poised for a major change in direction away from traditional advertising based models and NMG is at the forefront of the technological change. In comparison to other media list companies NMG is valued fairly high largely due to the consistency in its earnings and the strength of its dividend policy. We expect the ad spend volatility to persist with movements closely trailing economic trends. The management will continue its focus on regional expansion and internet-based (subscriber) business to pump new life into the business while keeping an eye on the impact of newsprint costs on the gross margin. We expect a higher dividend to compensate for 2009 returns. Using a weighted valuation basket we arrive at a fair value of Kshs106.37 pushing the current P/E 11.78x closer to the media industry.

Ad revenue continues to be volatile as economy enters into recovery

NMG owns a number of publishing houses, TV & radio stations throughout East Africa

Nation Media Group operates a number of subsidiaries spread over the East African region and its core business includes publishing of newspapers & magazines, broadcasting as well as courier and third party printing services. The improved economic growth in 2004-08 (averaging 5.2%) enabled ad revenue based model to prosper as NMG's profit margin were able to profit from its high operating leverage. The economy is posted mixed results in 2009 with Q3 growth flattening, but, while adverse economic conditions persist more companies will be price-sensitive to marketing spend. The optimistic 4% GDP growth estimates for 2010 augur well for ad spend growth. The table below highlights returns from NMG shares since 2004.

Exhibit 2: Nation Media Group – 6 Year Returns (Local Currency)

Trading Returns	Dec	Dec	Dec	Dec	Dec	Dec	Jan-Jan
History at Year End	2004	2005	2006	2007	2008	2009	2010
Inflation Adj. Return %	-17.3	38.5	48.1	-2.1	-27.2	-21.1	-
Share Price Return %	-11.0	48.9	64.7	4.2	-11.7	-18.1	0.0
NSE 20 Index Return %	7.6	34.9	42.1	-3.6	-35.3	-7.8	9.3
% NMG vs Index +/-	-18.6	14.1	22.6	7.7	23.7	-10.3	-9.3
Dividend Yield %	3.32	3.78	4.77	3.29	3.58	1.15	1.27
Market Cap - Sh m	10219	9095	13547	22317	23244	20534	16827
Growth in							AVG 04-08
Dividend Payments %	-40.0	33.3	100.0	-12.5	4.8	-	17.1
Avg. Annual Inflation %	11.6	10.3	14.5	9.8	26.2	-	14.5

NMG stock has outperformed the main market index four times over the past six years

Cyclical movements in economic growth shape the sector growth

The publishing industry has benefited from previous years economic gains and the group holds a substantial market share in the publishing space (over 70%) in terms of circulation of its news dailies. NMG's operations are highly concentrated in publishing leaving broadcasting, entertainment production and cable/pay TV fairly underdeveloped. NMG's advertising based model has resulted in a high exposure to shocks from volatile client advertising spend (e.g., 2009 half year growth of 1%) as sales growth prospects are jolted by cost cutting efforts taken as the economy slows.

Coming from the peak economic growth period in 2007 the group's revenues grew by 21.2% while Kenya's GDP rose by 7%. The global crisis in 2008 put a stop to the high growth rates with revenues growing by 7.4% (the lowest rise in many years) as GDP growth slowed to 1.7%. In 2008 the economic growth in NMG's regional market was projected to have grown by 6.9% in Uganda and 7.1% in Tanzania.

Considering the difficult operating environment in 2009 we believe that advertising spend patterns will reveal a shift toward lower cost mediums such as radio, which still comprises a large portion of advertising spend in East Africa.

Exhibit 3: Total Media Ad spend Trends in Kenya

	2006	2007	2008
Radio	47%	49%	50%
Television	28%	28%	29%
Print	23%	22%	21%
Cinema	1%	1%	N/A
Outdoor	N/A	N/A	N/A
Total Expenditure (Ksh mn)	13,584	17,430	20,431
Growth y-o-y	45%	28%	17%
Media Inflation	10%	19%	-

Source: Synovate

Radio still dominates the ad spend arena commanding a huge chunk of expenditure due to its wide use within the country. The television has been making minor gains and viewership in developing countries is expected to grow fast within the next few years. Print ad spend has seen its share decline from 23% to 21% and the costs of publishing are becoming increasingly difficult to manage as each year passes.

Exhibit 4: Advertising Exposure in East Africa

	2005	2006	2007	2008
Kenya	8.1	12.2	15.6	18.8
<i>Change</i>	<i>N/A</i>	<i>51%</i>	<i>28%</i>	<i>21%</i>
Uganda	3.3	4.2	5.7	6.1
<i>Change</i>	<i>N/A</i>	<i>27%</i>	<i>36%</i>	<i>7%</i>
Tanzania	2.0	2.2	2.9	4.7
<i>Change</i>	<i>N/A</i>	<i>10%</i>	<i>32%</i>	<i>62%</i>
Total	13.4	18.6	24.2	29.6

Source: Synovate

Revenue growth achieved a 11.1% CAGR over the last five years with 2008 growth recording the slowest change

The media ad spend statistics reveal a major slowdown in growth of ad expenditure between 2007 and 2008

Not surprisingly the Kenyan market remains the most dominant commanding over 63% of the ad exposure in East Africa

The Kenyan market continues to enjoy high growth rates and higher exposure compared to its neighbors; however, Tanzania’s high growth in over the last few years shows that the media market growth is still ripe for the picking with its share of the ad spend increasing from 12% in 2007 to 16% in 2008.

To reflect the difficult economic conditions the ad spend exposure for East Africa recorded reduced growth declining from 39% in 2006 to 22% in 2008. Incidentally the CAGR for the regions ad spend between 2005 and 2008 was also 22%.

The contributions to ad spend is expected to remain fairly constant as the biggest ad contributors generally control a largely portion of the annual spend

Ad spend in East Africa in the recent past has been supported by the consumer goods and telecommunications sectors that have raised their advertising budgets significantly in order to maintain their respective market positions. The low level ad exposures in Uganda and Tanzania provide NMG with a good opportunity to tap further into the untapped markets by offering a broader range of media services.

The global internet penetration is approximately 25.6% and is considerably higher due to the high penetration rates in developed markets (European Union and North America)

The internet phenomenon is sweeping the sector

The internet arena is growing fast globally by 380% from 2000 to 2009 according to Internet World Statistics website but this growth has been dwarfed by the African growth rate of 1,392% during the same period. The number of users in the region has grown quickly as illustrated in the figures for Kenya in the table below. The East African region appears to be the beneficiary of a new group of young internet users using the internet platform for social networking and educative purposes.

Exhibit 5: Internet Users

Year	Internet Users (per capita)				
	Kenya	Nigeria	Uganda	Tanzania	Rwanda
2002	12.5	-	-	-	-
2005	30.8	35.4	-	-	-
2007	81.3	74.1	66.1	10.2	10.1

Source: CIA World Factbook, December 2003 – 2008

* Per capita figures expressed per 1,000 population

Despite the high rate of growth the contribution of digital revenues to group revenues is insignificant until a more advanced digital infrastructure is put in place to monetize ads

I recent study by Deloitte’s Technology, Media and Telecommunications (TMT) practice suggested that in the foreseeable future the media sector would see an increase in digitalization which should drive the reinvention of the global sector forward. NMG is at the forefront of this innovation through its digital division that has adopted an e-newspaper business model. This division was one of the best performing divisions of the group in 2008 growing its revenues by 119% and realizing a 12% growth in operating profits.

This online subscription-based business model may prove lucrative to NMG as it enables them to attract one-off user fees which can make forecasting of their revenues easier to predict. The advantage of this model is that by the subscribers paying upfront for online content the risk of huge fluctuations in revenues is reduced and the group can implement more effective planning for future growth.

The group can also use its online platform to maintain and publicize their premium content

The digitalization of the industry will increase the capacity to provide more content and thus more man-power may be required to provide that content

This model also enables publishers to attract more online advertising spend particularly in areas where the sites offer subscribers premium content. While there are predictions that during 2010 the newspaper & magazine industry will charge its readers for all online content, this is unlikely to occur in the Kenyan context due to the need to grow subscriber volumes in order to reduce online viewership costs.

NMG's daily newspapers such as the Business Daily are already using a hybrid subscriber model where they provide most of their content free, while charging a fee for viewers interested in a limited quantity of premium content. While the contribution of online revenues is minimal, the ability to successfully monetize this service will enable NMG's revenues to be less sensitive to economic shocks as well as the volatile newsprint costs. The drive to provide more content online and to develop the digital platform in general will also require increased investment in human capital (to service content provision) and could result in higher fixed costs.

Kenya is ranked 7th in Africa terms of internet users with an estimated 3.4 million users out of 67.3 million in Africa according to internet world stats.¹ However the potential for the country is high with internet penetration in Africa estimated at only 6.7%. Internet usage in NMG's key markets (Kenya & Uganda) has recorded excellent growth with internet penetration in the larger Kenyan market rising from 0.7% in 2000 to 8.6% (about 2% above the average African rate of penetration).

Exhibit 6: Kenya Internet Usage Statistics

Year	Users	Population	% Penetration
2000	200,000	30,339,770	0.7%
2008	3,000,000	37,953,838	7.9%
2009	3,359,600	39,002,772	8.6%

Source: <http://www.internetworldstats.com/af/ke.htm>

Exhibit 7: Uganda Internet Usage Statistics

Year	Users	Population	% Penetration
2000	40,000	24,400,000	0.2%
2007	750,000	30,262,610	2.5%
2008	2,000,000	31,367,972	6.4%

Source: <http://www.internetworldstats.com/af/ug.htm>

The incentives to encourage the importation of computers included the waiver of taxes on certain computer equipment

The regional governments have also been incentivizing the importation of modern computer equipment to raise computer literacy in the country. This is illustrated by the arrival of the undersea fibre optic cables in the country in 2009 that promise to deliver swift internet speeds while bringing down the cost of internet services. The competition amongst these internet providers is expected to decline, thus bringing down costs and enabling internet usage to grow in leaps and bounds.

¹ Source: www.internetworldstats.com; Statistics were last updated in June 2009.

The Kenya ICT (Media) Bill was passed in 2009 and made provisions for digital signatures and e-commerce, which many experts believe are imperative to enabling the online business to thrive in Kenya. A key driver of revenues for the group has been the diversification of their product lines and focused capex spend on all divisions from upgrading printing equipment to expansion of the digital platform.

The group introduced a number of websites during 2009 such as N-soko, which enables people to access opportunities in the job market as well as shop more effectively. Nation classified also went online during the period with the mission of lowering the overall cost to clients.

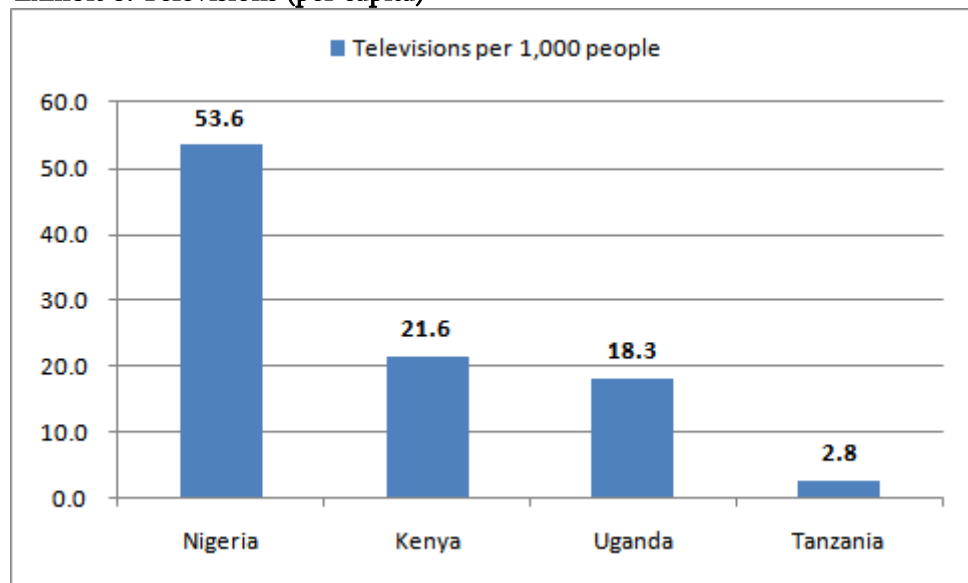
According to NMG management the online classified portal can lower client costs significantly as they can save on both time and transport costs as well as benefit from more favourable pricing. According to the management the cost of online ads is Kshs125 per week for any classified advert posted on the internet portal; however, a classified print advert costs about Kshs280 per line. The flexibility of the online system in terms of making orders faster (and more convenient) to fulfill and enabling easier payments promises to bolster online ad revenue growth in 2010.

The online classified service also rides on the back of the telecoms movement by enabling clients to pay through the popular money transfer services MPESA and ZAP

The new era for television begins

In December 2009, Kenya became only the second country after South Africa to begin the switch from analogue to digital broadcasting. The complete implementation of this programme will take place in June 2012 where industry players intend to switch off the analog network in favour of a digital broadcasting platform.

Exhibit 8: Televisions (per capita)



Source: CIA World Factbook, December 2003

http://www.nationmaster.com/graph/med_tel_percap-media-televisions-per-capita

We expect the newspaper and magazine divisions to continue hold the same share of revenues between 2010 and 2011

In terms of television ownership the Kenyan market has the most units in East Africa followed closely by Uganda. This trend is expected to add a new impetus to the revenue growth of NMG's broadcasting division that currently only contributes to about 10% of revenues. The remaining 90% of the revenues are earned from the newspapers and magazines segment that exhibit margins over 25% in terms of segment results (according to the 2008 annual report).

Segment results from the broadcasting segment recorded lower profit margins in 2008 dropping to 2.0% from 11.4% in 2007. This is in sharp contrast to profit margins in the newspapers and magazines segment that grew by 3.8% from 25.2% in 2007 to 29.0% in 2008. However, the CAGR over the last five years (2004-08) reveals a revenue growth rate of 21% in the broadcasting division versus a 10% growth rate in revenues for the newspapers and magazines division.

By the end of 2009 NTV Uganda had successfully covered a large part of the Ugandan market

This development underscores the importance of broadcasting in driving growth in the future and the cyclical nature of print publishing revenues. During 2009 the group re-launched the Kenyan broadcasting arm NTV Kenya and continued to make forays into the East African markets.

KENYA'S MIGRATION INTO DIGITAL BROADCASTING

The digital revolution began in 2006 when it was recommended that countries use new digital-compliant technology. This effort was accelerated by the Government of Kenya (GOK) insisting that only set boxes that are Digital enabled will be sold in Kenya. There are currently very few digital TVs in market.

GOK favours allowing private dealerships to sell new set top boxes in order to spur competition and thus bring down the prices of the sets down. Digital TVs are considerably more expensive for ordinary consumers.

Media experts expect the shift to release a greater number of frequencies and will help attract new investors into the industry by promising shorter queues for obtaining licenses. The lack of vibrancy in the Kenyan broadcasting sector has been attributed to few frequencies with NMG having to make strategic acquisitions to expand capacity.

GOK formed Signet as a KBC subsidiary to transmit the digital signals for all broadcasters until 2012 to reduce the cost of migration. After 2012 all broadcasters will surrender all their frequencies to CCK and apply for new ones.

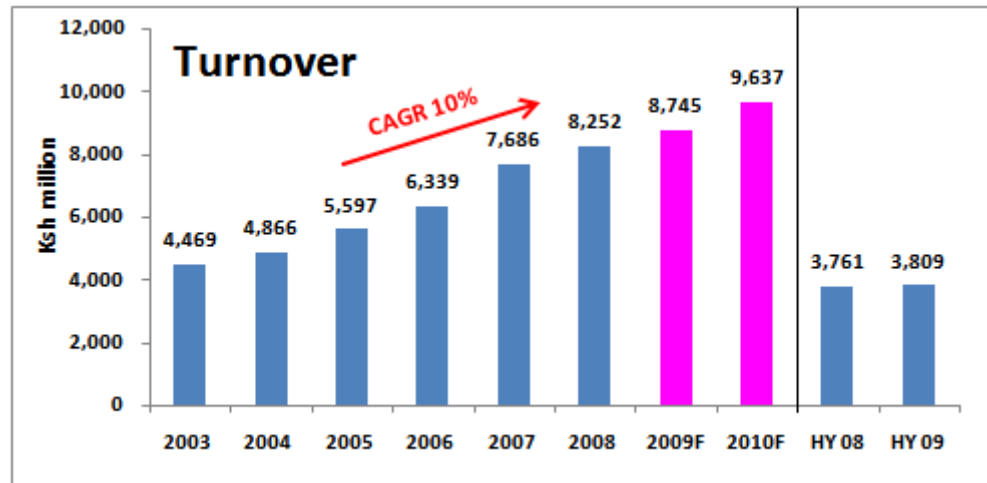
Media players expect a reduction in broadcasting costs as players will not have to spend money on non core business issues such as building and maintaining infrastructure (e.g., on transmitters). A secondary benefit will be the ability to access a wider audience through the new frequencies and better use of resources to enhance content.

The digital platform will be supported by the newly introduced undersea fibre optic cabling infrastructure enabling data to be transferred fast and efficiently although the new frequencies to end users.

Competition from new entrants will spur growth in digital TV enabling media companies such as NMG to venture into entertainment production and cable TV. The increased capacity and reduced broadcasting costs will together encourage media players to concentrate on content generation and promote local media production houses.

Operating performance in 2009 reveals a slow-down in revenue growth

Exhibit 9: Nation Media Group - Turnover Growth Trends



Source: Company Published Statements

Companies with advertising based models dread economic downturns as ad spend is often one of the first costs to be cut and this is reflected in the 1% growth in half year as at June 2009

The 11% CAGR in revenues were attributed to the newspaper and magazine division despite the high growth in broadcasting

The momentum in revenue growth was slowed down during the first half of 2009 where revenues grew marginally from Ksh 3.7 bn to Ksh 3.8 bn. Since 2004 revenues have recorded 11.1% CAGR and we expect a CAGR of 10.5% between 2009 and 2013. Over the next three years (2009-2011) we expect a CAGR of 7.5% as we expect revenue growth in the publishing arena to remain inelastic while the digital infrastructure is being implemented.

Exhibit 10: Performance for six months ended June 2009

	2008	HY 2008	HY 2009	Change
Sales	8,251.5	3,760.5	3,809.3	1%
Profit before tax	1,910.3	772.6	588.2	-24%
Taxation	614.4	270.4	194.1	-28%
Profit after tax	1,295.9	502.2	394.1	-22%
Minority interest	8.5	(1.4)	7.7	
Net profit	1,287.4	503.6	386.4	-23%
Earnings per share	9.03	3.53	2.71	
Dividends per share	5.50	1.50	1.50	
Net Margin	15.6%	13.4%	10.1%	

Source: Company data

The net margin in 2009 declined considerably by 3.3% in H1

NMG's half year performance was not inspiring as the operating environment became increasingly difficult to navigate. The management cited the rising cost base as having the biggest impact on profits with the group experiencing higher utility costs coupled with rising costs in newsprint. We expect revenue growth of 6.0% in 2009 as we anticipate NMG's key clients increasing their ad spend during the second half of the year to generate higher sales. Revenue growth rates in 2010 are expected to hit 10.2% which is close to our 10.5% CAGR for 2009/13 and will be supported by renewed GDP growth levels (expected to reach 4%). We foresee continued growth from the digital division but minimal impact on group revenues.

Exhibit 11: Nation Media Group – Margins and Returns

	2005	2006	2007	2008	2009F	2010F
Margins %						
Gross	76.1	77.5	78.8	80.0	78.5	78.0
Operating	16.9	16.8	19.7	21.8	19.0	20.1
Profit	18.1	18.2	20.8	23.2	19.6	20.7
Net	12.8	12.4	14.2	15.6	13.2	14.0
Returns %						
Earnings Yield	5.29	3.51	4.69	6.27	6.89	7.61
ROE	23.5	23.3	30.1	32.0	25.7	27.4
ROA	16.9	16.1	19.5	20.6	16.8	18.1

Source: Company data

We expect a recovery in the net margin in 2010 to 14% contingent on strong signals from print advertising

The cost of generating programming for television and radio or for hiring news staff doesn't rise with more subscribers thus the operating leverage

We expect the ratio of fixed costs to revenues to rise marginally toward 60% and expect these costs to record less than 10% CAGR between 2010/13

We expect gross margins to decline in 2009 to 78.5% from 80.0% due to higher direct costs experienced which are largely attributed to the depreciation of the local currency and the cost of newsprint that was estimated to have grown by 35% by June 2009. We expect the net margin to rise in second half of 2009 from 10.1% in the first half of 2009 to 13.2% in the second half of 2009 based on management's projections of a decline in newsprint costs in H2.

As with other publishing firms in the region the group operates with a high operating leverage where fixed costs comprise over 58% of revenues. We expect fixed costs growth to remain slow, but, pick up marginally in 2012 as the demands for a talented workforce take precedence to meet the growing need to provide quality content for digital programming. The group's margins in 2008 were considerably better than its closest competitor in the publishing field, Standard Newspapers Group (SNG). SNG recorded 66.0%, 18.3% and 9.3% respectively in 2008 for its gross, operating and net margins and its ROE levels in 2008 were 29.2%.

The group's free cashflows have largely been used to finance the expansion into the region which is a key revenue driver for the publishing company. Its' acquisitions have been done to facilitate volume growth, but help solidify their market position as well as enable the group to gain valuable capacity (e.g., acquiring companies that control vital radio and television frequencies that are most useful to the group).

Exhibit 12: Investments in Subsidiaries

	Country of incorporation	Holding %	Invested Capital 2008 Shs m
Trading subsidiaries:			
Nation Marketing & Publishing Limited	Kenya	100.0	0.5
Monitor Publications Limited	Uganda	76.7	19.1
Mwananchi Communications Limited	Tanzania	100.0	314.8
Nation Holdings Tanzania Limited	Tanzania	100.0	150.4
Africa Broadcasting Uganda Limited	Uganda	100.0	347.7
East African Magazines Limited	Kenya	51.0	0.0
			832.5

Source: Annual Report 2008

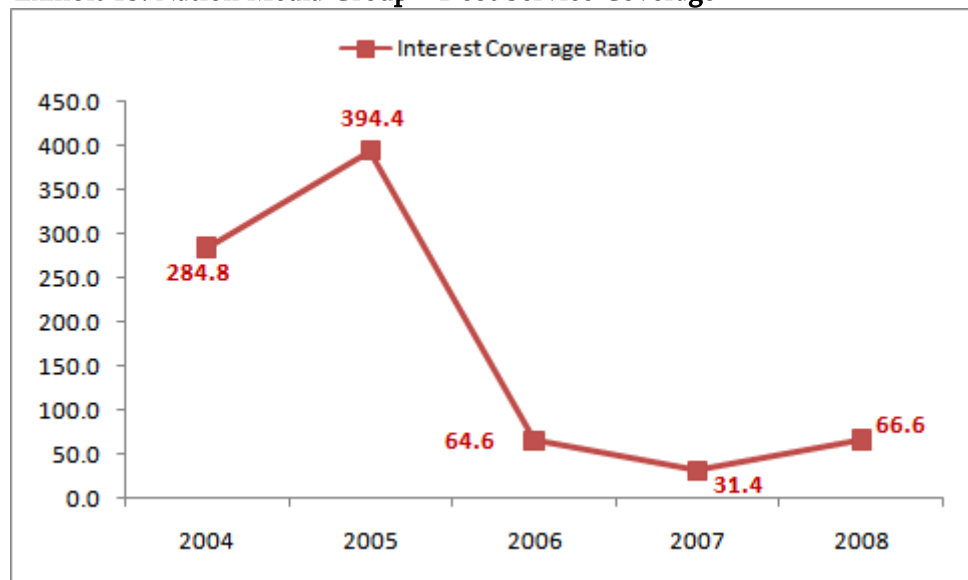
NMG has a good acquisition history that has seen it acquire companies in various markets and operate through diverse media streams

The group’s most recent acquisitions took place in 2008, where it fully acquired two Tanzanian companies, Radio Uhuru and Mwananchi Communications as well as East African Televisions network. The acquired companies operate within the group’s core East African markets and provide the group with greater market share and accessibility to more media platforms.

The group is also planning to make inroads in countries like Rwanda and venture into the West African region. NMG’s venture into new markets represents another key revenue driver as the wider geographical spread aids in diversifying economic risk exposure to Kenya.

However, operating in the region does have its problems as illustrated in the recent incident during mid-2009 where the group’s television station, NTV, had to resist pressure from the Ethiopian and Kenyan Governments that sort to censure it on a investigative documentary it did. Some of countries in the region are not very liberal with their media industries and NMG has to ensure that it picks in markets where the governments do not feel inclined to censor international media outlets.

Exhibit 13: Nation Media Group – Debt Service Coverage

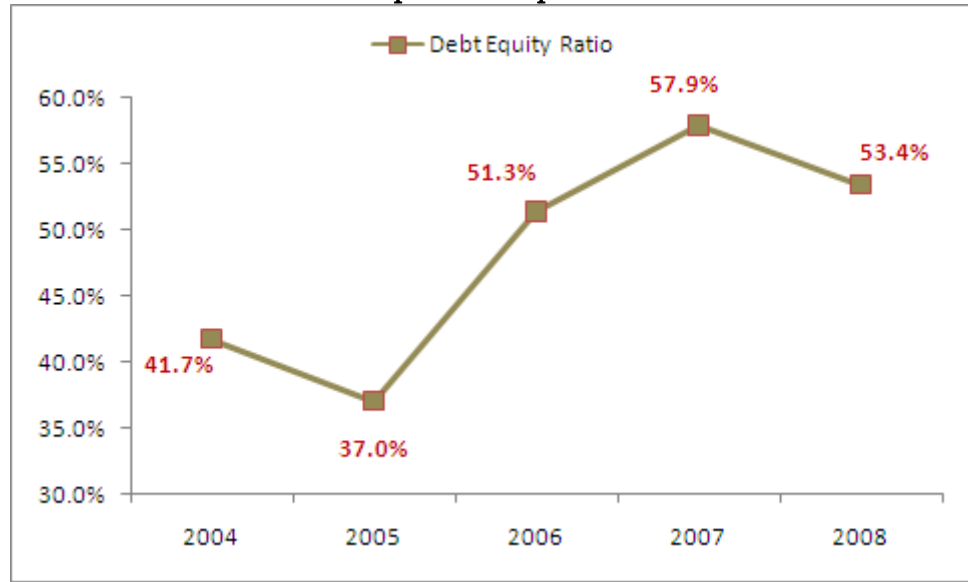


Interest coverage ratios remain high and the decline in 2006 was attributed to a rise in borrowings

Source: Company data

The coverage ratios illustrate that the company has adequate earnings to cover its financing costs and we believe that the 2009 ratio will be largely similar to 2008. The company earns net finance income as finance costs do not exceed 50% of finance income. By the end of 2008 the company was sitting on a high cash reserve of Ksh 1.3 bn which represented 20.0% of its 2008 asset base (or 15.8% of 2008 sales). We do not anticipate financing costs posing any threat to profit margins in 2010/13. A majority of the company’s borrowings are long term used to fund capex on the traditional print publishing and the emerging digital infrastructure. The capex coverage ratio declined from 2.6x in 2007 to 1.5x in 2008 due to a dip in operating cash flows; but, we expect the ratio to remain firmly above 1.0x in 2010.

Exhibit 14: Nation Media Group – Debt Exposure



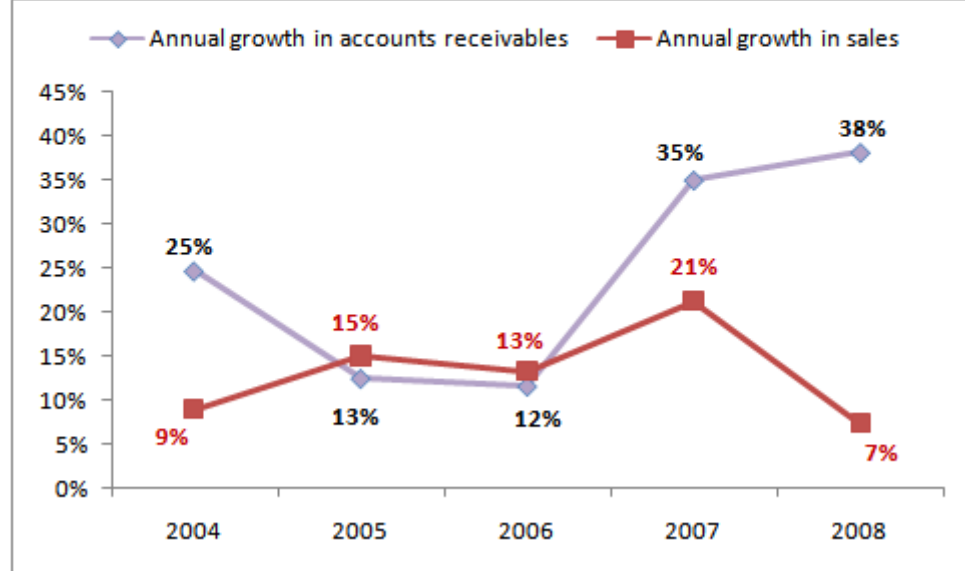
The company still maintains a large reserve of cash in its vaults and therefore can afford to maintain a zero gearing level

Source: Company data

The company's has no working capital issues but will be weary of the growing rate of accounts receivables versus revenues growth which if left unchecked might strain cash flows in 2009. All in all NMG has a strong balance sheet.

Exhibit 15: Nation Media Group - Working Capital Changes

	2004	2005	2006	2007	2008
Current Ratio	1.7x	2.0x	2.2x	1.9x	1.9x
Days Inventory Held (Days)	105	114	126	107	144
Days Sales Outstanding (Days)	52	53	53	54	68
Payables Turnover Ratio	321	315	296	398	329



The group needs to reduce the growth in receivables particularly during the recessions when internally generated cash can be used to fund expansion or maintain the group aggressive dividend policy

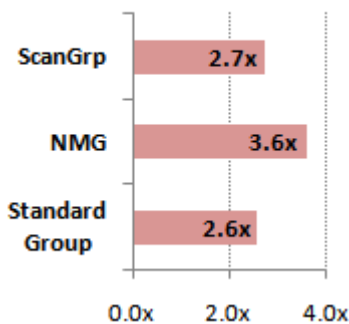
Source: Company data

Forecasts and Valuation Summary

Profit Model	2004	2005	2006	2007	2008	2009E	2010E
Sales	4,866	5,597	6,339	7,686	8,252	8,745	9,637
<i>Growth</i>	<i>8.9%</i>	<i>15.0%</i>	<i>13.3%</i>	<i>21.2%</i>	<i>7.4%</i>	<i>6.0%</i>	<i>10.2%</i>
Gross Profit	3,682	4,259	4,913	6,056	6,599	6,865	7,517
<i>Gross Margin</i>	<i>75.7%</i>	<i>76.1%</i>	<i>77.5%</i>	<i>78.8%</i>	<i>80.0%</i>	<i>78.5%</i>	<i>78.0%</i>
EBITDA	1,154	1,258	1,401	1,894	2,204	2,056	2,348
<i>EBITDA Margin</i>	<i>23.7%</i>	<i>22.5%</i>	<i>22.1%</i>	<i>24.6%</i>	<i>26.7%</i>	<i>23.5%</i>	<i>24.4%</i>
<i>EBITDA Growth</i>	-	<i>9.0%</i>	<i>11.4%</i>	<i>35.2%</i>	<i>16.4%</i>	<i>-6.7%</i>	<i>14.2%</i>
EBITA	1,153	1,250	1,392	1,879	2,181	2,028	2,315
<i>EBITA Margin</i>	<i>23.7%</i>	<i>22.3%</i>	<i>22.0%</i>	<i>24.5%</i>	<i>26.4%</i>	<i>23.2%</i>	<i>24.0%</i>
NOPLAT	822	885	1,179	1,358	1,632	1,755	1,997
+ Depreciation	293	284	300	334	354	364	382
+/- Working Capital Change	(226)	(137)	(21)	271	(723)	(514)	(401)
- Expansionary Capex	541	354	341	413	465	553	539
Free cash flow	348	679	1,117	1,549	799	1,053	1,438
<i>% Change</i>	-	<i>94.7%</i>	<i>64.6%</i>	<i>38.7%</i>	<i>-48.4%</i>	<i>31.8%</i>	<i>36.6%</i>

Valuation: NMG fair value price moves valuation multiples closer to par with media industry

Peer PBV Comparison



Source: FIB Calculation

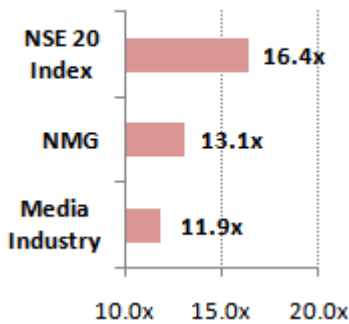
WACC Assumptions

Debt Level	2.0%
Equity Level	98.0%
Tax Rate	30.0%
Cost of Debt	0.1%
Risk Free Rate	6.6%
Risk Premium	5.0%
Inflation Premium	5.0%
Equity Beta	1.07
Geared Beta	1.05
Cost of Equity	16.7%
WACC	16.4%
Long-Term Growth	3.0%

Performance Indicators

	2008	06-08	09-11E	09-13E
Growth Rates		per annum change		
Sales	7.4%	14.0%	9.7%	11.8%
EBITDA	16.4%	21.0%	6.4%	9.9%
NOPLAT	20.2%	22.9%	11.5%	12.2%
Free Cash Flow	-48.4%	18.3%	29.5%	24.9%
Multiples & Returns	2008	2009E	2010E	2011E
EV/EBITDA	8.9	8.8	7.7	6.9
Return on Equity	32.0%	25.7%	27.4%	27.5%
Free CF/Sales	9.7%	12.0%	14.9%	15.9%
Free CF/EV	4.1%	5.5%	6.8%	7.4%

Market PE Comparison



Source: FIB Calculation

Present Value Calculation

NPV of FcF	5,289
+ Terminal Value	8,641
= Enterprise Value	13,930
- Net Debt	(1,169)
= Total Equity Value	15,099
Number of Shares	142.6
DCF Value Per Share	105.88
Current Price	118.00
Potential Upside	-10%
% of Terminal Value	
In Enterprise Value	62%

Sensitivity of DCF Value to WACC & Growth Rate-KSh/Share

WACC	Terminal Growth				
	1.0%	2.0%	3.0%	4.0%	5.0%
14.4%	108	113	119	125	134
15.4%	103	107	112	118	124
16.4%	98	102	106	111	117
17.4%	94	97	101	105	110
18.4%	90	93	96	100	104

Based on 2009 Multiples	P/E	PEG	P/CF	PBV
Valuation Ksh/share	106.2/-	95.5/-	107.1/-	100.8/-

Our recommendation

We have set a price target at **Kshs133.00 per share** which we believe is attainable within 6 months and will push the projected P/E to 16.4x. We recommend a **HOLD** decision that is dependent on a recovery in advertising exposure. NMG has to raise its final dividend by ~15% (to Kshs4.60) in order for dividend growth in 2009 to beat Kenya's overall annual inflation of 9.25% for December 2009. The downside risk on the share will be pegged on management's ability to counter newsprint costs as well as the rapid uptake of ads on the online platform. Investors may take comfort from NMG maintaining one of the highest free cashflow to sales ratios among NSE listed companies and that it has been represented in the NSE 20 Index since 1992. We've valued NMG at Kshs 106.00 per share based on an equally weighted valuation basket namely: DCF, P/E and P/CF. NMG's current P/E is discounted 20% to the NSE Index, we believe the 13% upside on our target is not adequate for short term investment. We estimate the price support at Ksh118; i.e., prices should not dip below Ksh118.

Disclaimer and Confidentiality

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