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Lender Picks Mail.ru As Top Media Stock

By The Moscow Times

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Yandex and Mail.ru are avoiding mistakes of the past, HSBC says. **Andrei Makhonin**

HSBC Holdings rates Mail.ru Group as one of its "top" stock picks as the Russian Internet company takes advantage of rising demand for advertising in the nation's expanding economy.

The largest Russian-language Internet company, which has a stake in Facebook, was rated HSBC's "top pick" in the country's media sector, while the London-based lender initiated an "underweight" recommendation for Yandex NV, operator of Russia's most popular search engine, according to an e-mailed research report from analysts Jean Kaplan and Herve Drouet.

Internet advertising in Russia will increase 25 percent this year from 2011, while the overall ad market will probably expand 10 percent, Kaplan said. The Internet's share of total advertising will jump to 26 percent by 2018, from 14 percent last year, as more Russians buy computers and access the Web amid the fastest economic growth since the second quarter of 2010.

Russia has a "significantly unpenetrated ad market with catch-up potential, and the Internet is the fastest-growing segment," the analysts wrote. "Our review of Yandex and Mail.ru finds that both are avoiding the big mistakes of the past and both have viable long-term strategies."

Mail.ru's "nonoperating assets," such as its 2.3 percent stake in Facebook, which is targeting an initial public offering this year, are undervalued by the market, the HSBC analysts said.

Investments that could be sold make up 50 percent of the $5.5 billion market capitalization of Mail.ru, which also owns stakes in Groupon and Facebook games developer Zynga, according to the report.

HSBC rated Mail.ru shares "overweight," saying the company will maintain its hold on 30 percent of Russia's Internet display ad market.

Mail.ru operates Russia's social-networking sites Moy Mir and Odnoklassniki, both of which have audiences exceeding 18 million people a month, according to the company. Mail.ru also owns a 40 percent stake in Vkontakte, Russia's biggest social-networking web site and a key portal for building support for protests against the results of December's parliamentary elections.

While HSBC predicts that the price of Yandex's U.S.-traded shares will climb 0.4 percent over the next 12 months, the bank sees the stock as "expensive" and expects investor enthusiasm for the company to be curbed after a ban on selling shares bought in Yandex's April initial public offering ended in November.

"The fact that half its share capital belongs to strategic pre-IPO investors could mean short- to medium-term selling pressure," the analysts wrote. Yandex will retain its 70 percent share of the Russian Internet search market and remain dominant in the sector, according to the note.

American depositary receipts by Yandex fell 2.4 percent to close at $18.60 in New York on Friday and have slumped 52 percent since they first started trading in May.

HSBC rated CTC Media "neutral," saying the U.S.-traded company that runs Russia's fifth-most-popular national television station is in an "uncertain position in the near term," according to the note.

Market share for the company's flagship CTC channel will decline further and its advertising market will probably shrink to 14 percent by 2018, from 17 percent in 2010, Kaplan and Drouet wrote. Further management changes at CTC, which lost chief executive Anton Kudryashov to mobile-phone provider VimpelCom in December, may also be destabilizing, the report said.

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