



BKN International AG

Primary Exchange: Frankfurt
General Standard
Secondary Exchange: London

Symbol: BKQ
ISIN: DE0005290704
Symbol: BKN

Rating: Buy
2005 Price Target: €6.70
Risk Rating: High

H1 2005 Results & Outlook

Key Points

On 12 May BKN International released a solid set of numbers for the half-year ending 31 March 2005, which were slightly above our expectations at all levels.

BKN announced at the end of April of this year that it had formed a joint venture agreement with ToonMax Media and Entertainment Co., we believe this will have significant impact on revenues going forward.

On 18 May the company announced that it was seeking to raise up to €3.3m by offering 1.5m new shares to investors at a price of €5.53 per share.

Recommendation

We are considerably impressed with the work management have done over the last two years in restructuring and refocusing the company. We believe there is good value in the share at current levels and would recommend investors to accumulate. However, we are decreasing our price target slightly from €7.00 to €6.70 due to the likely dilution caused by the recently announced capital increase.

Risks

Risks to our price target include decreases in TV programming spending, exchange rate risk and successful sales execution. Our risk rating on the stock remains High.

Company Profile

BKN and its subsidiaries are engaged in the production, distribution and marketing of children's animated television programs and the merchandising and licensing of the rights of those programs. The parent company is located in Cologne, Germany, with headquarters, BKN New Media Ltd., in London. The company has 24 employees.

Financial History & Projections* - US GAAP

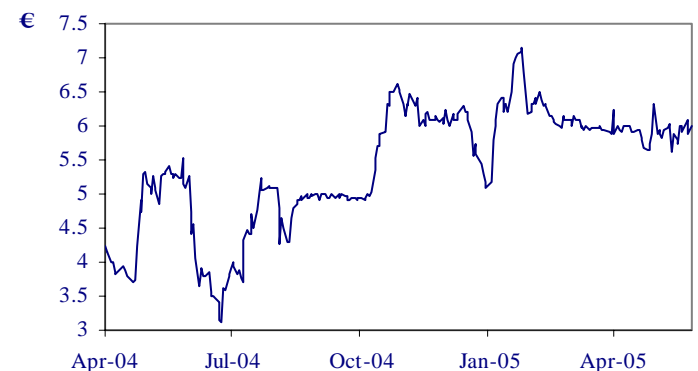
	2004A	2005E	2006E	2007E
Revenue €m	7.31	9.87	14.92	15.34
Yr/Yr Growth	62.7%	35.0%	51.2%	2.8%
EBIT €m	1.28	3.64	6.30	6.63
Net Income €m	1.69	2.92	5.15	5.25
EPS (pro forma) €	0.13	0.18	0.29	0.30

* Financial Year ends 30 September

Company Data (as of 31 March 2005 unless otherwise noted)

Market Capitalisation (26.05.05)	€9.17m
Shares Outstanding	15.012m
Cash & Cash Equivalents	€0.47m
Current Assets	€4.84m
Intangible Assets (Programming Rights)	€8.66m
Total Assets	€23.79m
Total Shareholders' Equity	€17.26m

Stock Overview



Source: Bloomberg & First Berlin

Closing Price (26.05.05)	€9.94
52-Week Range	€3.11 / €7.14
Free Float (According to Deutsche Boerse)	55.8%
Average Daily Share Volume (year)	28,589

Analyst Information

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H1 2005 Results

On 12 May BKN International released a solid set of numbers for the half-year ending 31 March 2005, which were slightly above our expectations at all levels.

Revenues at €5.54m were 101% up y-o-y (H1 FY 04: €4.76m) and were ahead of our projection of €5.21m. This is largely due to the better than expected success of the *Legend of the Dragon* cartoon series. Sales to television exceeded both management's and our expectations and the series has performed excellently since its launch late last year.

Net income at €1.02m was 250% up y-o-y (H1 FY 04: €0.29m) and was ahead of our estimate of €0.99m.

BKN generated €2.62m in cashflow from operating activities and invested €4.31m in programming rights. As of the 31 March, the company had €0.47m in cash.

The company's balance sheet remains stable with working capital of €3.33m, total assets of €23.79m and shareholders' equity of €17.26m.

Recent Events

BKN announced at the end of April of this year that it had formed a joint venture agreement with ToonMax Media and Entertainment Co., a leading cable television channel in China, to distribute animated shows in China. The agreement requires an investment of \$1m by BKN to co-produce at least 26 programs (from its back catalogue) per year over a ten year period. We believe this will have significant impact on revenues going forward.

On 18 May the company announced that it was seeking to raise up to €8.3m by offering 1.5m new shares to investors at a price of €5.53 per share. We regard this as an attractive offer as we see real growth opportunities for BKN over the next few years. BKN will use this capital to fuel its expansion into the Asian market.

Outlook

We believe the company is on track to at least match our projections for FY 05; however, we have decided to leave our projections as in our last report: revenues of €9.87m, operating income of €3.64m and net income of €2.92m.

We believe the success to date of the *Legend of the Dragon* series offers BKN great opportunities for mer-

chandising, especially in the coming Christmas season. This could provide substantial upside to our FY 05 results. In addition, BKN intends to launch the animated film, *Kong – King of Atlantis*, on DVD before Christmas 2005. This should coincide with the planned Christmas release of the King Kong remake, directed by Peter Jackson. We believe BKN will benefit enormously from the inevitable interest generated by the blockbuster and are expecting to increase our projections as a result. Finally, the company is planning to launch the animated film, *Ali Baba - The Lost Scimitar of Arabia* to television later this year. The release is three months earlier than we had expected. In consideration of these developments, we have decided to increase our FY 06 estimates. We are now projecting that the company will have revenues of €14.92m up from €14.02m, operating income of €6.30m up from €5.91m and a net income of €5.15m up from €4.95m.

Now that we have clarity regarding new projects and revenue streams, we are also commencing FY 07 projections. We believe the launch of the *Shanghai Tiger* animated series at the end of next year, which is aimed especially at the Chinese market, provides a substantial opportunity for BKN. On top of back catalogue sales, we also expect the launch of another new animated series, *Triple Threat from Outer Space* to be a revenue generator. For FY 07 we are projecting revenues to reach €15.34m, with operating income of €6.63m and net income of €5.25m.

Valuation

Our valuation is complicated by the proposed capital increase because we cannot be sure how many shares will actually be issued. We assumed in our calculations that 1.5m shares will be issued by the company. We valued BKN using a risk adjusted discounted cash flow model which assumes an 11.5% discount rate, and a terminal growth rate of 1.5% and we derived a valuation of €6.70, which converts into a pro forma P/E ratio of 22x our FY 07 projection.



Technical Analysis



Source: Bloomberg & First Berlin

Since failing to hold the €7.00 level in January, shares of BKN have been locked into a trading range between €5.50 and €6.00. These are the key levels in terms of support and resistance which will determine the next move in the stock.

Given the lack of strong indicators in the chart, we are technically neutral for the near-term until the stock moves out of this trading range. The upside barrier is the resistance found at €6.10. If the stock closes higher on increased volume, we believe a move to January highs above €7.00 is likely. However, if the share price falls below support at €5.50 on a closing basis, further downside potential in the stock would be €4.90 - 5.00.

In view of the neutral technical picture and the absence of fundamental catalysts, we would advise investors to buy patiently on price corrections near support.



Risks and Concerns

BKN reports in the euro and during FY 04, 40% of its sales were in North America. If the dollar continues to drop, the company's earnings may be negatively affected. We have assumed an exchange rate of €1.00 to US\$1.30 for our projections.

The television market is directly linked to economic conditions. If the economy slows down and advertising spending drops, broadcasters may be unwilling or unable to purchase new programmes. This is particularly important in relation to China, where BKN is putting greater focus.

Recommendation

BKN produced a solid set of H1 FY 05 numbers which were ahead of our projections at all levels. We are considerably impressed with the work management have done over the last two years in restructuring and refocusing the company. We believe there is good value in the share at current levels and would recommend investors to accumulate. However, we are decreasing our price target slightly from €7.00 to €6.70 due to the likely dilution caused by the recently announced capital increase.

For FY 05 our projections remain unchanged from our previous report (December 2004): revenues of €9.87m, operating income of €3.64m and net income of €2.92m.

For FY 06 we are now projecting that the company will have revenues of €14.92m, up from €14.02m, operating income of €6.30m, up from €5.91m, and a net income of €5.15m up from €4.95m.

For FY 07 we are projecting revenues to reach €15.34m, with operating income of €6.63m and net income of €5.25m.

Risks to our price target include decreases in TV programming spending, exchange rate risk and successful sales execution. Our risk rating on the stock remains High.


Detailed Financial History & Projections - US GAAP
Profit and Loss

in t €	2003A	2004A	2005E		2006E	2007E	
	TotalA	TotalA	1st Half A	2nd Half E	TotalE	TotalE	
Total revenues	4491	7306	5543	4327	9870	14920	15340
Operating expenses	-2440	-2779	-1714	-1236	-2950	-3800	-3790
Depreciation and Amortisation	-3579	-3245	-2563	-717	-3280	-4820	-4920
Operating Income	-1527	1282	1266	2374	3640	6300	6630
Other income / (costs)	267	410	-242	-8	-250	-350	-450
Net income before taxes	-1260	1692	1024	2366	3390	5950	6180
Taxes	-2	-2	0	-470	-470	-800	-930
Net income after taxes	-1262	1690	1024	1896	2920	5150	5250
Earnings per share	-0.14	0.13	0.07	0.13	0.19	0.34	0.35
Earnings per share (diluted)	-0.14	0.13	0.06	0.12	0.18	0.32	0.33
Proforma EPS	-	-	-	-	0.18	0.29	0.30
EBITDA	1968	4970	2980	4145	7125	8236	8236

Profitability Analysis

	2003A	2004A	2005E		2006E	2007E	
	TotalA	TotalA	1st Half A	2nd Half E	TotalE	TotalE	
Operating margin	-34%	18%	23%	55%	37%	42%	43%
Net income margin	-28%	23%	18%	44%	30%	35%	34%
Half-year Growth							
Total revenues	-	-	22%	-22%	-	-	-
Operating income	-	-	37%	88%	-	-	-
Net income/ loss	-	-	-27%	85%	-	-	-
Y-Y Growth							
Total revenues	-26%	63%	101%	-5%	35%	51%	3%
Operating income	97%	184%	251%	158%	184%	73%	5%
Net income/ loss	98%	234%	251%	36%	73%	76%	2%



First Berlin Recommendation and Price Target History

Report No:	Date of Publication	Previous Day Closing Price	Recommendation	Target Price	Interim High	% Change to High
1	3 Feb 2004	€1.84	Strong Buy	€2.75	€5.52	200.0%
2	1 June 2004	€5.26	Reduce	€4.75	€6.62	25.9%
3	23 Nov 2004	€6.10	Buy	UR	€6.25	2.5%
4	8 Dec 2004	€6.10	Buy	€7.00	€7.14	17.1%
5	12 May 2005	€5.96	Buy	€7.00	€6.09	2.2%
6	Today	€5.94	Buy	€6.70	-	-

Source: Bloomberg & First Berlin

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Rating System

First Berlin's investment rating system is five tiered and is a function of our expectation of return (forecast price appreciation and dividend yield) over the next 12 months. Our investment ratings are as follows:

STRONG BUY: Expected return greater than 20%
 BUY: Expected return greater than 10%
 HOLD: Fairly valued
 REDUCE: Expected return between -10% and 0%
 SELL: Expected return to depreciate by more than 15%

In addition, we have a SPECULATIVE BUY recommendation for stocks which we believe have the potential to give a return of 50% or more but which also we expect to be exceptionally volatile (movement up or down of 50% or more).

Risk Rating

Our risk ratings are Low, Medium, High and Speculative and are a reflection of expected price volatility, the strength of the balance sheet and the predictability of earnings.

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