

# BKN INTERNATIONAL AG

## GERMANY / MEDIA & ENTERTAINMENT

Primary Exchange: Frankfurt / Secondary Exchange: London  
 Symbol: BKQ  
 General Standard  
 ISIN: DE0005290704

**RATING: Buy**

**PRICE TARGET: €3.75**

**RISK RATING: High**

## BKN REPAYS CONVERTIBLE BOND EARLY

### COMPANY PROFILE

BKN and its subsidiaries produce, distribute, license and market children's animated television programmes. The company is headquartered in Cologne, Germany, with offices in New York, London and Barcelona.

### KEY POINTS

BKN obtained a new credit line from Commerzbank last week which the animation company used to repay its €3.2m convertible bond issued in August, significantly reducing BKN's interest costs. The €5m unsecured Commerzbank loan has a fixed, five-year term at 6.3%, compared to the bond, which carried a floating rate that had reached 10.25% before repayment.

BKN paid a €0.32m penalty, or 10% of the convertible bond's value, for early repayment. Despite this, repaying the bond early makes sense. The bond had carried a variable interest rate pegged to the US Prime rate + 2% and replacing that with a lower, fixed rate adds stability to the financial position. Early repayment also reduces the potential that the investor will dilute the share price by converting the bond to BKN common stock at €3.20 level.

Management has told us that BKN will invest money remaining from the Commerzbank loan into programme production. BKN has ordered an extra 10 episodes of flagship comedy *Dork Hunters* for delivery in 2008. The repayment and increased production do not affect our revenue, EBIT or net income forecasts for FY06/07.

### RECOMMENDATION

We view BKN's early repayment of its convertible bond as positive. The repayment leaves the company with €1.8m to plough into production. It also lowers BKN's financial burden, reducing its interest payments and removing the threat of share-price dilution. The repaid bond had been convertible into 1m shares of BKN common stock when the share price hit €3.20, potentially diluting shareholder value by 6.36%. We have already accounted for the possibility of an increase in programming deals in our forecasts. We leave our projections unchanged and reiterate our Buy recommendation and €3.75 price target.

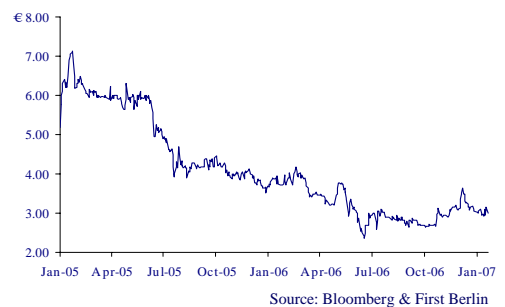
### RISKS

Risks to our price target include but are not limited to delays in animated series development, decreases in TV programming spending, delays in client acquisitions, non-renewals of existing contracts and changing consumer interests.

### TRADING DATA

Market Capitalisation (22.01.07)	€47.15m
Shares Outstanding	15.72m
Closing Price (22.01.07)	€3.00
52-Week Range	€2.37/4.18
Free Float (According to Company)	63%
Average Daily Share Volume (year)	25,362

### STOCK OVERVIEW



### FINANCIAL HISTORY & PROJECTIONS

	04/05A	05/06A	06/07E	07/08E
Revenue €m	11.97	13.89	17.37	21.19
Yr/Yr Growth	44.4%	16.1%	25.0%	22.0%
Operating Profit €m	3.20	4.74	6.20	7.31
Operating margin	26.7%	34.1%	35.7%	34.5%
Net income €m	4.29	3.74	4.70	5.71
EPS €	0.27	0.20	0.25	0.30
P/E	11.1	15.0	12.0	10.0

### COMPANY DATA (as of 30 September 2006 unless noted)

Liquid Assets	€1.65m
Current Assets	€3.93m
Intangible Assets	€6.59m
Total Assets	€43.82m
Current Liabilities	€2.13m
Total Shareholders' Equity	€28.64m

### ANALYST INFORMATION

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## FIRST BERLIN RECOMMENDATION &amp; PRICE TARGET HISTORY

Report No.:	Date of Publication	Previous Day Closing Price	Recommendation	Target Price	Interim High	% Change to High
Initial Report	3 February 2006	€1.87	Strong Buy	€2.75	-	-
2...7	↓	↓	↓	↓	↓	↓
8	26 April 2006	€3.23	Buy	€5.50	€3.77	16.7%
9	24 August 2006	€2.90	Buy	€4.80	€3.21	10.7%
10	19 December 2006	€3.23	Buy	€3.75	€3.63	12.4%
11	Today	€3.00	Buy	€3.75	-	-

Source: Bloomberg &amp; First Berlin

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BUY: Expected return greater than 15%  
HOLD: Expected return between 0% and 15%  
SELL: Expected negative return

Our risk ratings are Low, Medium, High and Speculative and are determined by ten factors: corporate governance, quality of earnings, management strength, balance sheet and financing risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, company size, free float and other company specific risks. These risk factors are incorporated into our valuation models and are therefore reflected in our price targets. Our models are available upon request to First Berlin clients.

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