BKN INTERNATIONAL AG

GERMANY / MEDIA - ENTERTAINMENT

Primary Exchange: Frankfurt
General Standard

Symbol: BKQ
ISIN: DE0005290704

RATING: Buy

PRICE TARGET: €5.50

RISK RATING: High

RESPONSE TO HY/06 INTERIM RESULTS

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.

KEY POINTS

BKN International published solid 6M/06 numbers yesterday. Revenues improved by 21.6% y-o-y to €7.18m (6M/05: €5.90m) driven by the excellent reception of its current series portfolio, e.g. *Legend of the Dragon (LoD)* and *Kong*. The company is currently expanding its *LoD* series with 13 new episodes scheduled to be delivered this summer.

On an earnings level, EBIT surged 48.5% y-o-y, from €1.14m in 6M/05 to €1.70m. While the company took on some new creative talent (especially for its *Dork Hunters* and *Zorro* productions) which will certainly leave an imprint on the bottom-line, it was still able to keep the increase in costs (15% y-o-y) substantially below revenue growth. Net income for the Group was reported at €1.42m (6M/05: €1.02m), increasing some 38.3% y-o-y.

The company confirmed its targets to achieve revenue and EBT growth of 30% in 2005/06, which is in-line with our projections. This guidance is substantiated by the increasing geographic reach of its product library as well as the merchandise initiatives on *Kong* and *LoD*.

In March 2006 BKN was able to acquire exclusive rights for an animated series and film, based on the classic adventure novel *Zorro*, from Zorro Productions. The production will start in May 2006 and should hit TV screens in 2007. Given the company's integrated approach of selling film and merchandising, *Zorro* will be a major driver for the 2007 results.

To value BKN, we used listed comparable companies in the production and cartoon branches. Based on P/E estimates for 2007, BKN (11.84x) is trading at a significant discount to the group multiple of 20.50x. In our view, this discount is unwarranted. Given the company's strong growth prospects in the coming years, we believe this discount will erode. This assumption renders a conservative fair value for BKN of €5.50.

RECOMMENDATION

Following the tough restructuring that BKN has undergone since 2004, the company's financial position and product pipeline look strong. The success of its current animated series portfolio, the acquisition of *Zorro* and expansion into home entertainment will drive 2007 earnings. We believe the selling of shares which the market has experienced over the last month is unjustified and undervalues the company's fundamentals. We therefore reiterate our Buy rating and increase our earnings projections for 2007 to €0.28 per share.

RISKS

Risks to our price target include delays of animated series development, decrease in TV programming spending, delays in client acquisitions, non-renewals of existing contracts and changing consumer interest.

IMPORTANT DISCLOSURES ARE AT THE BACK OF THIS REPORT

TRADING DATA

Market Capitalisation (25.04.06)	€50.77m
Shares Outstanding	15.72m
Closing Price (25.04.06)	€3.23
52-Week Range	€3.21 / 6.32
Free Float (Acc. to Deutsche Boerse)	63.5%
Average Daily Share Volume (Year)	23,257

STOCK OVERVIEW

Source: Bloomberg & First Berlin

FINANCIAL HISTORY & PROJECTIONS*

	2004A	2005A	2006E	2007E
Revenue €m	8.29	11.97	15.08	18.84
Yr/Yr Growth	84.6%	44.4%	26.0%	25.0%
Operating Income €m	1.85	3.20	4.08	5.48
Net Income/ Loss €m	1.69	2.97**	3.23	4.36
EPS € (basic)	0.13	0.19**	0.21	0.28

*Financial year ends 30 September
** adjusted for one-time tax credit of €1.32m

COMPANY DATA (as of 31 March 2005 unless noted)

Liquid Assets	€2.47m
Current Assets	€4.28m
Intangible Assets	€29.47m
Total Assets	€36.20m
Current Liabilities	€0.96m
Total Shareholders' Equity	€25.52m

ANALYST INFORMATION

Thomas Winnacker, Stephen Love
Tel. +49 (0)30 - 80 93 96 93
t.winnacker@firstberlin.com
Fax +49 (0)30 - 80 93 96 87

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of Publication	Previous Day Closing Price	Recommen-dation	Target Price	Interim High	% Change to High
1...4	-	-	-	-	-	-
5	12 May 2005	€5.96	Buy	€7.00	€6.09	2.2%
6	27 May 2005	€5.94	Buy	€6.70	€6.01	1.2%
7	21 November 2005	€4.05	Buy	U.R.	€4.18	3.2%
8	Today	€3.23	Buy	€5.50	-	-

Source: Bloomberg & First Berlin

Thomas Winnacker
Stephen Love
First Berlin
Equity Research Group

Schumannstr. 17
10117 Berlin

Tel. +49 (0)30 - 80 93 96 93
Fax +49 (0)30 - 80 93 96 87

info@firstberlin.com
www.firstberlin.com

FIRST BERLIN POLICY
In an effort to assure the independence of First Berlin research neither analysts nor the company itself trade or own securities in subject companies. In addition, Analysts' compensation is not directly linked to specific financial transactions, trading revenue or asset management fees. Analysts are compensated on a broad range of benchmarks. Furthermore, First Berlin receives no compensation from subject companies in relation to the costs of producing this report.

ANALYST CERTIFICATION
We, Thomas Winnacker and Stephen Love, certify that the views expressed in this report accurately reflect our personal and professional views about the subject company; and we certify that our compensation is not directly linked to any specific financial transaction including trading revenue or asset management fees; neither is it directly or indirectly related to the specific recommendation or views contained in this research. In addition, we possess no shares in the subject company.

INVESTMENT RATING SYSTEM
First Berlin's investment rating system includes an investment recommendation and a risk rating. Our recommendations, which are a function of our expectation of total return (forecast price appreciation and dividend yield) in the year specified, are as follows:

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.

Up until 30 June 2005, First Berlin's investment rating system was five tiered and was a function of our expectation of return (forecast price appreciation and dividend yield) over the specified year. Our investment ratings were 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 had a SPECULATIVE BUY recommendation for stocks which we projected had the potential to give a return of 50% or more but which we also expected to be exceptionally volatile (movement up or down of 50% or more). Our risk ratings were Low, Medium, High and Speculative and were a reflection of expected price volatility, the strength of the balance sheet and the predictability of earnings.

ADDITIONAL DISCLOSURES
This report is not constructed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer would be illegal. We are not soliciting any action based upon this material. This material is for the general information of clients of First Berlin. It does not take into account the particular investment objectives, financial situation or needs of individual clients. Before acting on any advice or recommendation in this material, a client should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should be relied upon as such. Opinions expressed are our current opinions as of the date appearing on this material only; such opinions are subject to change without notice.