

# BKN INTERNATIONAL AG

## GERMANY / MEDIA & ENTERTAINMENT

Primary Exchange: Frankfurt  
Secondary Exchange: London  
Symbol: BKQ

General Standard  
ISIN: DE0005290704

**RATING: Buy**

**PRICE TARGET: €3.20**

**RISK RATING: High**

## BKN ANNOUNCES CAPITAL INCREASE

### COMPANY PROFILE

BKN International AG 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

On the evening of 27 June, BKN announced a capital increase worth up to €13m which the animation company will use to repay its outstanding €6.4m in convertible bonds and invest in a new digital animation studio. BKN will offer up to 5.2m shares at €2.45 per share. The share price fell 7.7% on the day to close at €2.51 on 28 June.

BKN has been paying off its convertible bonds since the beginning of the year. In January the company paid off the €3.2m bond it issued to Anacapa Funding in 2006. In the H1/07 report, BKN stated it had reduced its average net interest payable to 7.9% from 9.2% and reduced the potential dilution from its bonds to less than 11% from 22%. The report also stated that BKN wanted to 'reduce this further in the next twelve months by the continued repayment of such convertible bonds still remaining outstanding'. Yesterday's announcement is the natural extension of this aim.

Management has told us that BKN will invest €5m - €6m in a new state-of-the-art digital high-definition animation studio over the next 12 months. The company has identified increasing market demand for this kind of product from broadcasters.

### RECOMMENDATION

We view BKN's proposed early repayment of its convertible bond as positive. It should lower BKN's financial burden, reducing its interest payments and removing the threat of share-price dilution. However, the company can give us no details at this time as to potential upside to revenue and earnings from the digital studio investment. We will monitor developments closely but require more information on the impact of the capital increase before revising our forecasts. On 27 June we published a comprehensive update showing BKN to be attractively valued at current levels and trading at a substantial discount to its peer group. At present we leave our projections unchanged and reiterate our Buy recommendation and €3.20 price target.

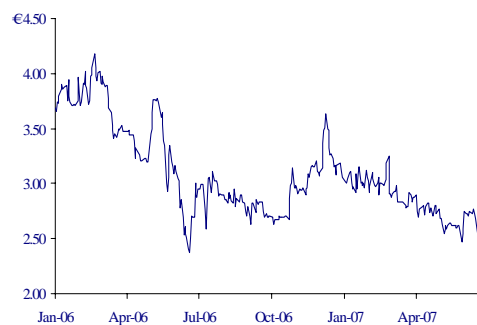
### RISKS

Risks to our price target include but are not limited to: delays in animated series development; a decrease in TV programme budgets; delays in client acquisitions; non-renewals of existing contracts and changing consumer interests.

### TRADING DATA

|                                   |              |
|-----------------------------------|--------------|
| Market Capitalisation (28.06.07)  | €39.45m      |
| Shares Outstanding                | 15.72m       |
| Closing Price (28.06.07)          | €2.51        |
| 52-Week Range                     | €2.47 / 3.63 |
| Free Float (According to Company) | 63%          |
| Average Daily Share Volume (year) | 15,921       |

### STOCK OVERVIEW



Source: Bloomberg & First Berlin

### FINANCIAL HISTORY & PROJECTIONS

|                     | 04/05 | 05/06 | 06/07E | 07/08E |
|---------------------|-------|-------|--------|--------|
| Revenue €m          | 11.97 | 13.89 | 17.40  | 21.50  |
| Yr/Yr Growth        | 44.4% | 16.1% | 25.2%  | 23.6%  |
| Operating Profit €m | 3.20  | 4.74  | 6.09   | 7.46   |
| Operating margin    | 26.7% | 34.1% | 35.0%  | 34.7%  |
| Net income €m       | 4.29  | 4.50  | 4.74   | 5.44   |
| EPS €               | 0.28  | 0.29  | 0.30   | 0.35   |
| P/E                 | 9.0   | 8.7   | 8.4    | 7.2    |

### COMPANY DATA (as of 31 March 2007 unless noted)

|                            |         |
|----------------------------|---------|
| Liquid Assets              | €6.23m  |
| Current Assets             | €9.77m  |
| Intangible Assets          | €42.32m |
| Total Assets               | €55.50m |
| Current Liabilities        | €1.21m  |
| Total Shareholders' Equity | €30.46m |

### 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...9          | ↓                   | ↓                          | ↓              | ↓            | ↓            | ↓                |
| 10             | 19 December 2006    | €3.23                      | Buy            | €4.75        | €3.63        | 12.4%            |
| 11             | 23 January 2007     | €3.00                      | Buy            | €3.75        | €3.25        | 8.0%             |
| 12             | 27 June 2007        | €2.78                      | Buy            | €3.20        | €2.72        | -2.2%            |
| 13             | Today               | €2.51                      | Buy            | €3.20        | -            | -                |

Source: Bloomberg &amp; First Berlin

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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.

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