

**Hold**

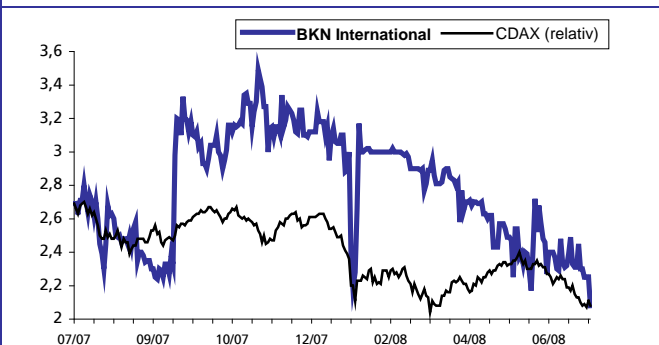
(old: Hold)

**Risk:**

high

**Price target:****EUR 2.60****Further capital increase to finance growth**

Bloomberg: BKQ GY Price: EUR 2.08  
 Reuters: BKQG.DE CDAX: 573.18  
 ISIN: DE0005290704  
 Internet: www.bknkids.com  
 Segment: General Standard  
 Branche: Entertainment/Media



Share data: Bloomberg

08.07.2008 / Closing price

High / Low 52 W: EUR 3.90 / EUR 2.00  
 Market cap.: EUR 40.35 m  
 No. of shares: 19.4 m

Shareholders:

Free float	27.6%
Charleville Investments	19.4%
Gordon Group Holding LLC	16.2%
Allianz Global Investors	8.9%
Michael Jack Kugler	8.2%
Credit Agricole	7.0%
Allen Bohbot	6.8%
Dalton	6.2%
Carmignac	4.2%
Cominvest	3.1%
DWS	2.9%

**Analysis: SES Research****Date of publication:****09.07.2008****Tim Wunderlich (Analyst)****+49-(0)40 309537-185****Institutional Client Contact: M.M.Warburg & CO**

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On July 7, BKN International announced a capital increase. The company plans to offer up to 1,000,000 new shares at EUR 2.10, supplying the company with EUR 2.1 m of fresh capital at best.

BKN intends to use the liquidity to produce the second season of Zorro Generation Z – a film whose first season has been extremely successful (e.g. *No.5 kids show in Spain*) and has brought in some EUR 2 m in 2007.

Due to the strong market response to the first series, the production of Zorro series two is going to be accelerated and the series likely to be released in early 2009, while previously a launch in 2010 was expected.

On a conservative note, Zorro series two is expected to generate some EUR 3 m in sales in the same year. Sales are likely to be even higher given that series two is going to be produced in HD quality – a quality which is rare and high in demand and thus allows BKN to charge premium prices.

However, the renewed capital increase underlines the fact that growth for BKN only comes at high capex requirements. In fact, the company has been free cash flow negative in the past four years and is expected to remain so until 2010 (SES).

Clearly, the constant need for liquidity does not bode well in times of rising economic uncertainties. As visibility remains moderate, the potential contribution of Zorro series two is not yet incorporated into the model.

Despite the promising film pipeline, the recommendation to HOLD the BKN share is reiterated with an unchanged PT of EUR 2.60. Estimates will be revised as soon as the capital increase has been carried through.

Fiscal year ending	09/07	09/08e	09/09e	09/010e
Per Share figures in EUR, other figures in EURm, price: EUR 2.08				
<b>Sales</b>	16.3	20.2	22.6	25.1
<i>Gross margin</i>	100.8%	99.6%	98.6%	97.3%
<b>EBITDA</b>	9.1	12.0	13.4	14.8
<i>EBITDA-margin</i>	55.8%	59.3%	59.5%	59.2%
<b>EBIT</b>	6.9	6.9	7.2	8.0
<i>EBIT-margin</i>	42.4%	34.2%	32.0%	31.8%
<b>Net Income</b>	5.0	5.0	5.1	5.9
<b>EpS</b>	0.26	0.25	0.26	0.30
<b>DPS</b>	0.00	0.00	0.00	0.09
<i>Dividend Yield</i>	0.0%	0.0%	0.0%	4.3%
<b>EV/Sales</b>	3.43	2.76	2.47	2.22
<b>EV/EBITDA</b>	6.14	4.66	4.15	3.76
<b>EV/EBIT</b>	8.08	8.09	7.71	6.99
<b>PER</b>	8.00	8.32	8.00	6.93
<b>ROCE</b>	11.4%	10.2%	9.4%	9.7%
<b>Adj. Free Cash Flow Yield</b>	5.5%	7.1%	9.8%	12.3%

## Key figures BKN International

P&L (EUR m)	2006	2007e	2008e	2009e	Price Data	
Sales	12.6	16.3	20.2	22.6	Share Price (EUR)	2.08
Total Sales	13.9	18.0	22.2	24.8	Market Cap. (EUR m)	40
COGS	1.0	1.6	2.1	2.6	Enterprise Value (EUR m)	56
Gross Profit	12.9	16.4	20.1	22.3		
Personnel Expenses	3.0	3.1	3.4	3.6	<b>Share Key Data</b>	<b>2006 2007e 2008e 2009e</b>
Other Operating Expenses	3.7	4.2	4.7	5.3	Earnings per Share (EUR)	0.29 0.26 0.25 0.26
EBITDA	6.2	9.1	12.0	13.4	Sales per Share (EUR)	0.80 0.84 1.03 1.15
Depreciation and Amortisation	1.4	2.2	5.1	6.2	Free Cash Flow per Share (EUR)	-0.48 -0.65 -0.21 -0.13
- thereof Goodwill Amortisation	0.0	0.0	0.0	0.0	Dividend per Share (EUR)	0.00 0.00 0.00 0.00
EBIT	4.7	6.9	6.9	7.2	<b>Valuation Key Data</b>	<b>2006 2007e 2008e 2009e</b>
Financial Result	-0.6	-1.4	-0.9	-0.8	P/E	7.27 8.04 8.17 7.93
Extraordinary Result	0.0	0.0	0.0	0.0	P/Sales	2.59 2.48 2.02 1.80
EBT	4.1	5.5	6.0	6.4	EV/Sales	4.42 3.43 2.76 2.47
Taxes	-0.4	0.5	1.0	1.3	EV/EBITDA	9.03 6.14 4.66 4.15
Net Profit before Minorities	4.5	5.0	5.0	5.1	EV/EBIT	11.75 8.08 8.09 7.71
Net Profit	4.5	5.0	5.0	5.1	P/Book	1.41 0.97 0.86 0.78
Dividend Payout	0.0	0.0	0.0	0.0	Dividend Yield	0.0% 0.0% 0.0% 0.0%
<b>Cash-Flow</b>	<b>2006</b>	<b>2007e</b>	<b>2008e</b>	<b>2009e</b>	<b>No. of shares (million)</b>	<b>2006 2007e 2008e 2009e</b>
Cash Flow from Operations	5.9	7.2	10.1	11.4	Ordinary shares out	15.72 19.40 19.59 19.59
Free Cash Flow	-7.6	-12.6	-4.0	-2.6		
Capex	14.5	19.2	13.7	13.7		
<b>Balance sheet (EUR m)</b>	<b>2006</b>	<b>2007e</b>	<b>2008e</b>	<b>2009e</b>	<b>Profitability</b>	<b>2006 2007e 2008e 2009e</b>
Fixed Assets	0.1	0.1	0.1	0.1	EBITDA-margin	49.0% 55.8% 59.3% 59.5%
Intangible Assets	36.6	53.7	62.3	69.7	EBIT-margin	37.6% 42.4% 34.2% 32.0%
Net Working Capital	0.3	1.6	2.0	2.3	EBT-margin	32.7% 33.6% 29.7% 28.5%
Current Assets	7.1	7.9	6.4	8.1	Net Profit-margin	35.6% 30.9% 24.7% 22.7%
Cash and Cash Equivalents	1.6	2.2	0.1	1.5	ROE	15.7% 12.0% 10.7% 9.9%
Equity	28.6	41.7	46.7	51.8	ROA	12.6% 10.4% 9.5% 9.0%
Provisions	1.0	1.2	1.2	1.2	ROCE	11.2% 11.4% 10.2% 9.4%
Financial Liabilities	12.6	17.6	19.5	23.5		
Net Cash	-11.0	-15.4	-19.4	-22.0	<b>Company profile</b>	
Total	43.8	61.7	68.8	78.0	BKN develops and markets animated entertainment programmes for children. Furthermore, the company has an own film library consisting of titles for children entertainment at its disposal. Based on this catalogue of rights BKN licences merchandising rights for consumer products. BKN is marketing the broadcasting and merchandising rights on a worldwide scale.	
Reporting standard	IFRS	IFRS	IFRS	IFRS		
Fiscal year ending	30.09.2006	30.09.2007	30.09.2008	30.09.2009		
<b>Growth rates</b>	<b>2006</b>	<b>2007e</b>	<b>2008e</b>	<b>2009e</b>	<b>Management</b>	
Sales	5.4%	29.0%	24.0%	12.0%	Allen Bohbot (CEO), Wayne Mowat (CFO)	
EBITDA	5.1%	47.2%	31.6%	12.5%		
EBIT	48.4%	45.5%	-0.2%	4.9%		
EBT	38.6%	32.8%	9.5%	7.5%		
Net profit	4.8%	11.7%	-0.6%	3.0%		
Dividend	n.a.	n.a.	n.a.	n.a.		
<b>Cost intensities</b>	<b>2006</b>	<b>2007e</b>	<b>2008e</b>	<b>2009e</b>	<b>Shareholders</b>	
COGS / Sales	7.8%	9.7%	10.5%	11.3%	Free Float	27.60%
Personnel Expenses / Sales	23.7%	18.9%	17.0%	15.8%	Charleville Investments	19.40%
					Gordon Group Holding LLC	16.20%
					Allianz Global Investors	8.90%
					Jack Kugler	8.20%
					Credit Agricole	7.00%
					Allen Bohbot	6.80%
<b>Segments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>		

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