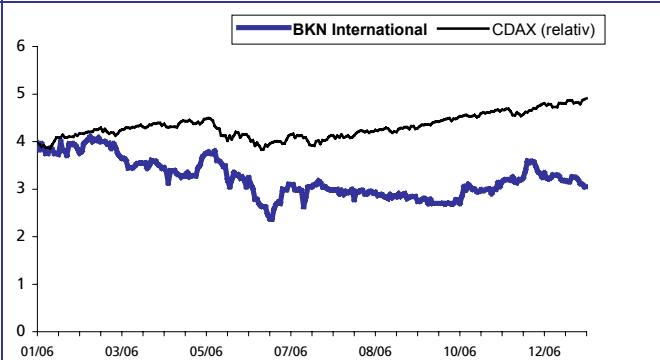


Buy Risk: Price target: **€ 4.10**
(previous: Buy) high

Progress in the establishment of the Home Entertainment segment

Bloomberg: BKQ GY Share price: € 3.05
Reuters: BKQG.DE CDAX: 607.23
ISIN: DE0005290704
Internet: www.bknkids.com
Segment: General Standard
Sector: Entertainment/Media



Share data: Bloomberg 15.01.2007 / Closing price

Share price high / low 52 weeks: € 4.22 / € 2.25
Market capitalisation: 47,94 m
Number of shares: 15.72 m

Sharehold- Free float 63.50%
Gordon Group Holding LLC 20.30%
Allen Bohbot 8.10%
Jack Kugler 8.10%

Calendar: Annual General Meeting 22.02.2007

Analysis: SES Research

Date of publication: 16.01.2007
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On 11 January 2007, BKN announced the signing of license agreements for the DVD distribution of its own titles as well as for the broadcasting of its own productions in free-TV for the Canada region. With Morningstar Entertainment Inc, one of the leading independent Canadian home entertainment distributors will take over the sales distribution of 14 titles from BKN's existing rights. Furthermore, Tele-Quebec acquired free TV rights in the new, animated CGI HD films of BKN. We estimate a sales contribution of the contracts in the mid-six-digit range.

We regard the agreement to distribute DVD titles in Canada as another step in the successful development of the Home Entertainment segment. Up to now BKN's DVD sales distribution activities in the USA, Canada, UK and Ireland, Spain, Italy and South America regions have been covered by partners. Partnerships in some Asian countries are also in place. The conclusion of additional distribution partnerships in other Central European and Asian countries would be of high importance for the segment. We expect these regions to be widely covered by the end of the current fiscal year.

We have already incorporated the successful establishment of the Home Entertainment segment in our forecasts, which we are therefore leaving unchanged. The price target of € 4.10 based on the DCF model and the Buy rating are also reiterated.

End of fiscal year	9/06	9/07e	9/08e	9/09e	CAGR
Sales	13.9	17.9	22.3	25.0	21.6%
EBITDA	6.2	11.2	14.9	16.9	39.8%
<i>Margin</i>	44.43%	62.50%	67.00%	67.50%	
EBIT	4.7	5.1	6.8	7.8	18.1%
<i>Margin</i>	34.14%	28.70%	30.50%	31.25%	
Net income	4.5	4.1	5.4	6.3	11.7%
<i>Margin</i>	32.35%	22.67%	24.23%	25.09%	
EPS	0.29	0.26	0.32	0.38	9.6%
Dividend	0.00	0.00	0.00	0.00	n.m.
<i>Yield</i>	0.00%	0.00%	0.00%	0.00%	
EPS in €, all other data in million €, share price: € 3.10					
Price/Sales	3.51	2.72	2.18	1.95	
PER	10.84	11.99	9.54	8.23	
EV/Sales	4.30	3.33	2.68	2.39	
EV/EBITDA	9.67	5.33	3.99	3.54	

Key figures (BKN)

P&L (€m)	2006	2007e	2008e	2009e	Price Data				
Sales	13.9	17.9	22.3	25.0	Price (€)			3.10	
Total operating performance	15.2	19.2	23.7	26.5	Marketcap. (€m)			49	
Purchases	1.0	1.0	1.1	1.2	Enterprise Value (€m)			60	
Gross Profit	14.2	18.2	22.5	25.2	Share Key Data				
Personnel costs	3.0	3.0	3.1	3.2	Earnings per share (€)	2006	2007e	2008e	2009e
Other operating expenses	3.7	3.9	4.5	5.1	Sales per share (€)	0.88	1.14	1.34	1.50
EBITDA	6.2	11.2	14.9	16.9	Free-Cash-Flow per share (€)	-0.32	-0.04	0.14	0.24
Depreciation	1.4	6.1	8.1	9.1	Dividend per share (€)	0.00	0.00	0.00	0.00
- thereof amortisation of goodwill	0.0	0.0	0.0	0.0	Valuation Key Data				
EBIT	4.7	5.1	6.8	7.8	P/E	2006	2007e	2008e	2009e
Financial result	-0.6	-0.6	-0.4	-0.2	P/SALES	10.84	11.99	9.54	8.23
Extraordinary result	0.0	0.0	0.0	0.0	EV/SALES	3.51	2.72	2.31	2.06
EBT	4.1	4.5	6.4	7.6	EV/EBITDA	4.30	3.33	2.68	2.39
Taxes	-0.4	0.5	1.0	1.3	EV/EBIT	9.67	5.33	3.99	3.54
Net result before minorities	4.5	4.1	5.4	6.3	P/Bookvalue	12.58	11.60	8.77	7.64
Net profit	4.5	4.1	5.4	6.3	Dividend yield	1.73	1.51	1.14	0.99
Profit distribution	0.0	0.0	0.0	0.0	No. of shares (million)				
Cash-Flow					2006	2007e	2008e	2009e	
Operativer Cash-Flow	5.9	10.1	13.5	15.3	Ordinary shares out	15.72	15.72	16.64	16.64
Free-Cash-Flow	-5.0	-0.6	2.3	4.1	Profitability				
Investitionen	11.5	10.5	11.0	11.0	EBITDA / Sales	2006	2007e	2008e	2009e
Balance sheet (€m)					2006	2007e	2008e	2009e	
Fixed assets	0.2	0.2	0.3	0.4	EBIT / Sales	44.4%	62.5%	67.0%	67.5%
Intangible assets	33.5	37.9	40.7	42.6	EBT / Sales	34.1%	28.7%	30.5%	31.3%
Net working capital	1.6	1.9	2.2	2.6	Net profit / Sales	29.6%	25.2%	28.7%	30.3%
Current assets	6.8	6.5	9.2	13.6	EC yield	32.4%	22.7%	24.2%	25.1%
Liquid funds	3.4	2.7	4.9	8.9	SC yield	15.9%	12.6%	12.7%	12.8%
Equity capital	28.2	32.3	42.7	49.0	ROCE	12.5%	10.4%	11.4%	11.6%
Provisions	1.0	1.1	1.2	1.3	Company profile				
Financial Liabilities	12.7	12.7	7.7	7.7	BKN develops and markets animated entertainment programmes for children.				
Net liquidity	-9.3	-10.0	-2.8	1.2	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.				
Balance total	41.1	45.4	51.0	57.3	Management				
Reporting standard				IFRS	IFRS	IFRS	IFRS	Allen Bohbot (CEO), Wayne Mowat (CFO), Ben Heng (Managing Director Asia)	
Fiscal year end				30.09.2006	30.09.2007	30.09.2008	30.09.2009		
Growth rates				2006	2007e	2008e	2009e	Shareholders	
Sales	16.2%	29.0%	24.5%	12.0%	Free Float			63.50%	
EBITDA	-8.3%	81.5%	33.5%	12.8%	Gordon Group Holding LLC			20.30%	
EBIT	17.0%	8.4%	32.3%	14.8%	Allen Bohbot			8.10%	
EBT	7.6%	9.8%	41.6%	18.2%	Jack Kugler			8.10%	
Net profit	-12.7%	-9.6%	33.0%	16.0%					
Dividend	n.a.	n.a.	n.a.	n.a.					
Cost intensities				2006	2007e	2008e	2009e		
Purchases / Sales	7.1%	5.7%	5.0%	5.0%					
Personnel costs / Sales	21.5%	17.0%	14.0%	13.0%					

Source: Company (reported data), SES Research (estimates and valuation), Bloomberg (price data)

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