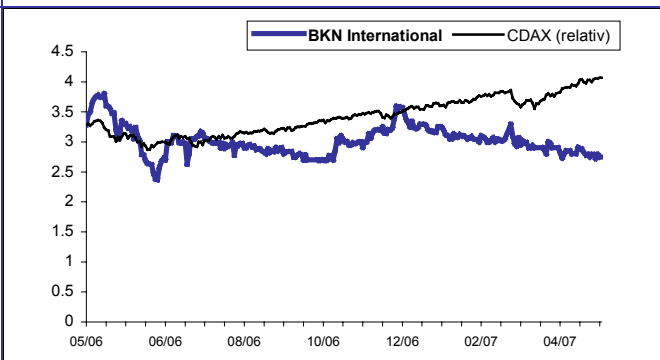


Buy Risk: Price target: **EUR 3.80**
(previous: Buy) high

Growth continues – earnings profit from lower write-downs

Bloomberg: BKQ GY Share price: EUR 2.75
Reuters: BKQG.DE CDAX: 676.75
ISIN: DE0005290704
Internet: www.bknkids.com
Segment: General Standard
Sector: Entertainment/media



Share data: Bloomberg 02.05.2007 / Closing price

Share price high / low 52 weeks: EUR 3.89 / 2.25
Market capitalisation: EUR 43.22 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:

Analysis: SES Research

Date of publication: 03.05.2007
Frank Biller (Analyst) +49-(0)40 309537-14

Institutional Client Contact: M.M.Warburg & CO

Barbara C. Effler (Head of Equities) +49-(0)40 3282-2636

Institutional Equity Sales

Christian Alisch +49-(0)40 3282-2667

Thomas Dinges +49-(0)40 3282-2635

Matthias Fritsch +49-(0)40 3282-2696

Dr. James F. Jackson +49-(0)40 3282-2664

Oliver Jürgens +49-(0)40 3282-2666

Benjamin Kassen +49-(0)40 3282-2630

Marina Konzog +49-(0)40 3282-2669

Dirk Rosenfelder +49-(0)40 3282-2692

Marco Schumann +49-(0)40 3282-2665

Andreas Wessel +49-(0)40 3282-2663

Sales Trading

Oliver Merkel +49-(0)40 3282-2634

Thekla Struve +49-(0)40 3282-2668

Gudrun Bolsen +49-(0)40 3282-2679

Nils Carstens +49-(0)40 3282-2701

Jörg Treptow +49-(0)40 3282-2658

Steffen Flemming +49-(0)40 3282-2694

Sales Assistance

Wiebke Müller +49-(0)40 3282-2703

Kerstin Muthig +49-(0)40 3282-2632

BKN submitted its half-year report for H1 2006/07 on 26.04. The sound earnings and sales growth was able to continue. Sales increased by 13 %. At the same time, earnings figures – expect for EBITDA (+14 %) – were significantly improved over-proportionately. EBIT was 58 % above the previous year's level. A net income increase of 34 % was also achieved.

H1 2006/07				
	Reported	Forecast	Change	Previous year
Sales	8.10	8.50	-4.7%	7.20
EBITDA	4.20	5.20	-19.23%	3.70
Margin	51.85%	61.18%		51.39%
EBIT	2.65	2.35	12.77%	1.70
Margin	32.72%	27.65%		23.61%
Net result	1.90	1.83	3.83%	1.40
Margin	23.46%	21.53%		19.44%
EPS	0.12	0.12	0.00%	0.09

EPS in €, other figures in € million

Table 1; Sources: BKN International AG, SES Research

A comparison with forecasts turned out mixed results. Our sales expectation was somewhat higher. However, we haven't attributed too much meaning to this deviation. This discrepancy can, to a large extent, be compensated for in H2. On an EBITDA basis, our forecasts fell short. However, not only our EBIT expectations, but also our net income expectations were exceeded somewhat.

Fiscal year end	12/06	12/07e	12/08e	12/09e	CAGR
Sales	13.9	17.7	22.1	24.8	21.3%
Sales (old)	-	17.9	22.3	-	
Delta		-1.0%	-0.7%	-0.8%	
EBITDA	6.2	7.9	13.4	15.4	35.6%
Margin	44.43%	44.68%	60.70%	62.00%	
EBITDA (old)	-	11.2	14.9	-	
Delta		-29.3%	-9.8%	-9.0%	
EBIT	4.7	5.9	6.8	7.9	18.7%
Margin	34.14%	33.20%	30.70%	32.00%	
EBIT (old)	-	5.1	6.8	-	
Delta		15.3%	0.0%	1.7%	
Net Income	4.5	4.4	4.8	5.7	8.5%
Margin	32.35%	25.08%	21.67%	23.13%	
Net Income (old)	-	4.1	5.4	-	
Delta		8.3%	-11.2%	-9.0%	
EpS	0.29	0.28	0.29	0.34	6.4%
EpS (old)	-	0.26	0.32	-	
Delta		10.4%	-9.9%	-9.3%	
Dividend	0.00	0.00	0.00	0.00	n.a.
Yield	0.00%	0.00%	0.00%	0.00%	
Dividend (old)	-	0.00	0.00	-	
Delta		n.a.	n.a.	n.a.	

EpS in EUR, other figures in EURm, price: EUR 2.75

Price/Sales	3.11	2.44	1.95	1.74
P/E	9.62	9.73	9.54	7.98
EV/Sales	4.34	3.41	2.72	2.43
EV/EBITDA	9.77	7.62	4.49	3.92

Lower write-downs were the main reason for our earnings forecasts being exceeded. As a result of its expectations for sales from existing rights, BKN had lower write-downs than what we had assumed.

The main sales pillar was the existing rights catalogue. There were no deliveries of new TV-series. Accordingly, sales from the TV segment also declined (minus 13 % to EUR 3.65 m). In the Consumer Brands segment, however, BKN was able to significantly increase sales due to the successful productions of the recent past (+61% to EUR 3.9 m).

Operating expenses remained at the previous year's amount. Lower write-downs and manufacturer fees compensated for increased personnel and administrative costs. While the higher personnel expense is sustained due to the reduction of staff in connection with the growth rate, the administration expense included a one-off cost (EUR 0.3 m), which arose through financial measures. Without this expense, administrative costs would have also remained at the prior year's level.

For H2 we expect stronger growth than in H1. Impulses come from the Home Entertainment industry, the first delivery of the new production, Dork Hunters from Outer Space and Zorro, and other dynamic merchandising (Consumer Brands). The pipeline for 2008 is also well filled with new productions. We are leaving our sales forecasts unchanged. We have revised our write-down planning for the earnings forecasts, and have made adjustments resulting from the amended financial structure. Based on a DCF model, the price target lies at EUR 3.80 (previously EUR 4.1). We are leaving the rating as Buy.

Key figures (BKN)

P&L (EUR m)					Price Data				
	2006	2007e	2008e	2009e					
Sales	13.9	17.7	22.1	24.8	Share Price (EUR)				2.75
Total Sales	13.9	17.7	22.1	24.8	Market Cap. (EUR m)				43
COGS	1.0	0.9	1.0	1.1	Enterprise Value (EUR m)				60
Gross Profit	12.9	16.8	21.1	23.7					
Personnel Expenses	3.0	3.3	3.2	3.3	Share Key Data	2006	2007e	2008e	2009e
Other Operating Expenses	3.7	4.0	4.4	5.0	Earnings per Share (EUR)	0.29	0.28	0.29	0.34
EBITDA	6.2	7.9	13.4	15.4	Sales per Share (EUR)	0.88	1.13	1.33	1.49
Depreciation and Amortisation	1.4	2.0	6.6	7.4	Free Cash Flow per Share (EUR)	-0.32	-0.29	0.02	0.11
- 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	5.9	6.8	7.9					
Financial Result	-0.6	-1.0	-1.0	-0.9	Valuation Key Data	2006	2007e	2008e	2009e
Extraordinary Result	0.0	0.0	0.0	0.0	P/E	9.62	9.73	9.54	7.98
EBT	4.1	4.9	5.8	7.0	P/Sales	3.11	2.44	2.07	1.85
Taxes	-0.4	0.5	1.0	1.3	EV/Sales	4.34	3.41	2.72	2.43
Net Profit before Minorities	4.5	4.4	4.8	5.7	EV/EBITDA	9.77	7.62	4.49	3.92
Net Profit	4.5	4.4	4.8	5.7	EV/EBIT	12.72	10.26	8.88	7.60
Dividend Payout	0.0	0.0	0.0	0.0	P/Book	1.53	1.32	1.02	0.90
					Dividend Yield	0.0%	0.0%	0.0%	0.0%
Cash-Flow	2006	2007e	2008e	2009e	No. of shares (million)	2006	2007e	2008e	2009e
Cash Flow from Operations	5.9	6.5	11.4	13.2	Ordinary shares out	15.72	15.72	16.64	16.64
Free Cash Flow	-5.0	-4.5	0.3	1.9					
Capex	11.5	10.5	11.0	11.0					
Balance sheet (EUR m)	2006	2007e	2008e	2009e	Profitability	2006	2007e	2008e	2009e
Fixed Assets	0.2	0.3	0.3	0.4	EBITDA-margin	44.4%	44.7%	60.7%	62.0%
Intangible Assets	33.5	45.7	50.0	53.5	EBIT-margin	34.1%	33.2%	30.7%	32.0%
Net Working Capital	1.6	2.2	2.3	2.7	EBT-margin	29.6%	27.7%	26.2%	28.4%
Current Assets	6.8	9.2	9.4	11.7	Net Profit-margin	32.4%	25.1%	21.7%	23.1%
Cash and Cash Equivalents	3.4	5.2	5.1	6.9	ROE	15.9%	13.6%	11.3%	11.9%
Equity	28.2	32.7	42.5	48.2	ROA	13.4%	11.2%	10.3%	10.8%
Provisions	1.0	1.1	1.2	1.3	ROCE	13.1%	12.5%	13.2%	14.3%
Financial Liabilities	12.7	23.3	18.3	18.3					
Net Cash	-9.3	-18.2	-13.2	-11.4	Company profile				
Total	41.1	56.2	60.8	66.6	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					
Growth rates	2006	2007e	2008e	2009e	Management				
Sales	16.2%	27.5%	25.0%	12.0%	Allen Bohbot (CEO), Wayne Mowat (CFO), Ben Heng (Managing Director Asia)				
EBITDA	-8.3%	28.2%	69.8%	14.4%					
EBIT	17.0%	24.0%	15.6%	16.7%					
EBT	7.6%	19.0%	18.3%	21.4%					
Net profit	-12.7%	-1.2%	8.0%	19.6%					
Dividend	n.a.	n.a.	n.a.	n.a.					
Cost intensities	2006	2007e	2008e	2009e	Shareholders				
COGS / Sales	7.1%	5.3%	4.7%	4.5%	Free Float				63.50%
Personnel Expenses / Sales	21.5%	18.5%	14.6%	13.5%	Gordon Group Holding LLC				20.30%
					Allen Bohbot				8.10%
					Jack Kugler				8.10%

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

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