

# Apace Media <sup>3,4,5</sup>

## Media & Entertainment

### Investment impacts

- Apace Media's interim results show the effects of investment in the development of its Eastern European Broadcasting activities. This was the main factor behind the rise in group pre-exceptional loss before tax from £0.07m to £1.02m in 1H07.
- Group revenues were little changed, at £4.58m. Behind this headline, there was a smaller contribution from the Eastern European businesses, which were deconsolidated from 1 April 2007, following the establishment of the BMGL (Balkan Media Group Ltd) joint venture with MTG.
- The normalised loss per share rose from 0.25p to 0.94p. Reported basic EPS was, in contrast, 1.01p, compared with a loss of 0.25p in 1H06. The positive result reflects the net profit arising on the sale of the Eastern European businesses in the joint venture.
- The period end net cash position was £0.7m, compared with £1.5m at the year end. This was due to the operating loss, a working capital outflow of £0.8m and reinvestment of a significant proportion of the proceeds from sale of the Eastern European businesses both back into the joint venture and into Albania.
- As at 30 June, Apace had invested £1.4m into Albania, where it has an option to acquire one of the two national commercial terrestrial licences. 2008 might be the year when it exercises its option, in which case there may be a step up in investment in programming and operations. As in the case of Bulgaria and Macedonia, Apace anticipates that it would seek to develop this business through a joint venture with a partner.
- Overall, the 1H07 result was weaker than we had forecast (pre-exceptional loss of £0.2m). This was due in part to the increased loss in Eastern Europe and partly to slower revenue growth and lower EBITDA in Content Creation.
- In Eastern Europe, the result was adversely affected by negotiations with cable operators, during which BMGL ceased the service in Sofia and Plovdiv for three months. The successful conclusion of negotiations means that monthly cable revenues will be 56% higher in October 2007 than in December 2006, largely due to raised prices.
- BMGL has, at the same time, stepped up its investment in content. This has quickly impacted on audience share since the re-launch of channels. In the 18-49 demographic, BMGL channels' share of commercial impacts has risen, impressively, from 5% at the end of 2006 to over 7.5%. We expect advertising to grow strongly on the back of this performance, albeit with a time lag.

BUY

11.25p

AIM APA.L

Share price as at close of 03/10/07

No of shares (m) 89.0

Market cap (£m) 10.0

Net cash (£m) 0.7

Enterprise value (£m) 9.3

(%)	1m	3m	12m
FTA relative	-9.9	-30.2	-44.1

12 month high/low (p) 19.75/9.88

#### Next news

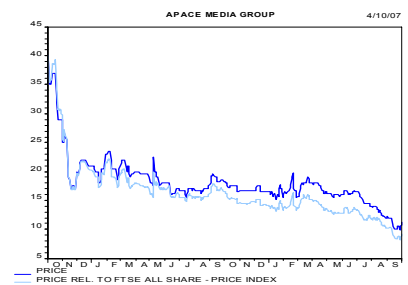
Full year results – June 2008

#### Business

TV content creation, compilation music production and broadcasting in Eastern Europe

[www.apacemedia.com](http://www.apacemedia.com)

#### Price and price relative (-2y)



Source : Datastream

#### Contact

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- EBITDA generated by the UK Content Creation division was almost unchanged at £0.19m on revenues that rose by 34% to £3.67m. We had forecast revenues for this division of £4.5m. The lower margin reflects the investment put into expanding the business and the fact that TV production commissions at Steadfast have been slower to build than expected in the first half. That said, management is optimistic about the outlook for Steadfast, given the advanced stage of discussions on a number of potential new commissions. These should benefit both the second half and 2008.
- Among the other businesses within Content Creation, Pro-Active is delivering good revenue and profit growth. While Apace Music also enjoyed revenue growth, this was impacted by wholesale and retail de-stocking and, accordingly, fell considerably short of the 55% year-on-year UK over-the-counter sales increase.
- As a consequence of the above factors and the more aggressive investment in BMGL, we have cut our forecasts. We now anticipate a pre-exceptional loss before tax of £1.29m in 2007, compared with our previous forecast of a profit before tax of £0.07m. The movement is equally attributable to Content Creation and BMGL. We have extended our caution on the timing of returns into 2008, for which we now forecast a loss of £0.33m (previously a profit of £1.2m).
- While these are significant movements around the breakeven position and delay the transition into profit, the direction of each of the main businesses is still one of growth. Indeed, in the case of BMGL, we have raised our revenue forecasts in 2008 (£7.0m vs. £6.5m), although this is not evident, since the interest in the JV is included in the Associates line.
- Apace Media remains committed to developing the value of its assets over the medium term. In the near term, this is underpinned by its agreement with BMGL, which contains a series of put and call options. This provides a 'safety net', which protects Apace on the downside, but allows it to share in the upside that management expects to flow from the creation of the JV and MTG's involvement in it.
- Using the safety net level, we estimate the combined value of Apace's investment in BMGL and cash on the group balance sheet at around £11m. This is above the group's current market capitalisation of £10m. Even accepting management's intention to continue investing in the speculative Albanian opportunity, this leaves the Content Creation business in for nothing. This does not capture the value of a business with £10m of revenues and £1m EBITDA. The independent TV production peer group is trading on an average EV/EBITDA multiple of 6.0x. Even applying a discounted 5.0x multiple, Content Creation would have a value of £5m or 5.6p per share. Given the valuation upside and mechanisms to unlock it over the medium term, we retain our **BUY** recommendation.

Period end December	Sales (£m)	EBITDA (£m)	Norm. PBT (£m)	EPS (p)	Dividend (p)	PER (x)	Price/FCF (x)	Div yield (%)	ROIC (%)
2006	10.6	0.37	-0.25	-0.5	0.0	-23.2	-6.0	0.0	-2.0
2007E	10.4	-0.22	-1.79	-1.8	0.0	-6.2	-6.6	0.0	-9.5
2008E	10.8	0.48	-0.33	-0.4	0.0	-30.4	-96.6	0.0	-2.3
2009E	12.0	0.85	0.95	0.9	0.0	12.6	291.4	0.0	-2.3

Source: Seymour Pierce Limited full year forecasts

**Apace Media - Profit and loss**

Year to December £m	2005	2006	2007F	2008F	2009F
<b>Turnover</b>					
Content Creation		6.97	9.51	10.80	12.01
Eastern European Broadcasting		3.62	0.91	0.00	0.00
<b>Total Turnover</b>	<b>1.99</b>	<b>10.59</b>	<b>10.41</b>	<b>10.80</b>	<b>12.01</b>
<b>EBITDA</b>					
Content Creation		0.42	1.03	1.35	1.75
Eastern European Broadcasting		0.69	-0.45	0.00	0.00
Apace Media central costs		-0.74	-0.80	-0.86	-0.89
<b>Total EBITDA</b>	<b>-1.27</b>	<b>0.37</b>	<b>-0.22</b>	<b>0.48</b>	<b>0.85</b>
Depreciation	-0.11	-0.58	-0.34	-0.28	-0.23
<b>Total operating profit</b>	<b>-1.38</b>	<b>-0.21</b>	<b>-0.56</b>	<b>0.20</b>	<b>0.62</b>
<i>EBITDA Margins</i>					
<i>Content Creation</i>		6.0%	10.9%	12.5%	14.6%
<i>Eastern European Broadcasting</i>		19.1%	-49.6%		
<b>EBITDA margin</b>	<b>-63.9%</b>	<b>3.5%</b>	<b>-2.1%</b>	<b>4.5%</b>	<b>7.1%</b>
<b>Operating margin</b>	<b>-69.5%</b>	<b>-2.0%</b>	<b>-5.4%</b>	<b>1.9%</b>	<b>5.2%</b>
Associates	0.00	0.00	-0.76	-0.52	0.42
Net interest/financial items	0.04	0.04	0.04	-0.01	-0.09
<b>Pre-exceptional PBT</b>	<b>-1.34</b>	<b>-0.17</b>	<b>-1.29</b>	<b>-0.33</b>	<b>0.95</b>
Operating exceptional items	0.84	-0.08	-0.50	0.00	0.00
<b>Normalised PBT</b>	<b>-0.50</b>	<b>-0.25</b>	<b>-1.79</b>	<b>-0.33</b>	<b>0.95</b>
Other exceptional items	0.00	0.00	1.74	0.00	0.00
<b>Reported pre-tax profit</b>	<b>-0.50</b>	<b>-0.25</b>	<b>-0.05</b>	<b>-0.33</b>	<b>0.95</b>
Taxation - total	-0.01	-0.02	0.00	0.00	-0.05
Minorities	-0.05	-0.07	0.18	0.00	-0.10
<b>Attributable profit</b>	<b>-0.56</b>	<b>-0.34</b>	<b>0.13</b>	<b>-0.33</b>	<b>0.80</b>
Weighted no. of shares (m)	16.6	69.0	89.1	89.1	89.1
<b>Pre-exceptional EPS</b>	<b>-8.44p</b>	<b>-0.37p</b>	<b>-1.24p</b>	<b>-0.37p</b>	<b>0.90p</b>
<b>Normalised EPS (after op. exceptionals)</b>	<b>-3.37p</b>	<b>-0.49p</b>	<b>-1.80p</b>	<b>-0.37p</b>	<b>0.90p</b>
Reported EPS	-3.37p	-0.49p	0.15p	-0.37p	0.90p
Dividend	0.00p	0.00p	0.00p	0.00p	0.00p

Source: Company data, Seymour Pierce Limited forecasts

**Apace Media - Cash flow**

Year to December £m	2005	2006	2007F	2008F	2009F
<b>Operating profit</b>	<b>-1.38</b>	<b>-0.21</b>	<b>-0.56</b>	<b>0.20</b>	<b>0.62</b>
Depreciation and amortisation	0.11	0.58	0.34	0.28	0.23
Net interest	0.04	0.04	0.04	-0.01	-0.09
Tax paid	0.00	0.00	-0.02	0.00	0.00
Dividends paid to minorities	-0.09	-0.07	-0.07	-0.07	-0.07
Other	0.74	-0.06	-0.15	0.00	0.00
Working capital	-3.61	-0.25	-0.65	-0.06	-0.18
<b>Cash flow before investing activities</b>	<b>-4.18</b>	<b>0.04</b>	<b>-1.06</b>	<b>0.35</b>	<b>0.52</b>
Capital expenditure	-0.17	-0.34	-0.15	-0.15	-0.17
Purchase of intangibles	-0.19	-1.00	-0.30	-0.30	-0.32
Sale of fixed assets	0.06	0.01	0.00	0.00	0.00
<b>Free cash flow to shareholders</b>	<b>-4.48</b>	<b>-1.30</b>	<b>-1.51</b>	<b>-0.10</b>	<b>0.03</b>
Acquisitions	-0.44	-4.13	0.00	0.00	0.00
Disposals	0.00	0.00	4.73	0.00	0.00
Other	-0.18	0.00	-4.58	-1.00	0.00
Equity issues	8.39	2.93	0.00	0.00	0.00
<b>Net cash inflow/outflow</b>	<b>3.30</b>	<b>-2.50</b>	<b>-1.36</b>	<b>-1.10</b>	<b>0.03</b>
<b>Closing net cash/debt</b>	<b>3.68</b>	<b>1.17</b>	<b>-0.19</b>	<b>-1.29</b>	<b>-1.26</b>
<b>FCF to shareholders per share</b>	<b>-27.0p</b>	<b>-1.9p</b>	<b>-1.7p</b>	<b>-0.1p</b>	<b>0.0p</b>

Source: Company data, Seymour Pierce Limited forecasts

<sup>3,4,5</sup> Please see regulatory disclosure notes at the end of this document

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Hold	Absolute return expected to change by between -5% and +5%
Underperform	Absolute return expected to decrease by between 5% and 10%
Sell	Absolute return expected to decrease by more than 10%

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Hold	28%	29%
Underperform	6%	29%
Sell	1%	0%

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