

AIM: Media

## Apace Media - (APA.L)

Price	Market Cap	12 Month
18.75p	£16.7m	Buy (N/C)

Analyst

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### Reason for comment: *Part sale of Broadcasting into JV vehicle*

Apace has placed its Eastern European broadcasting assets into a new JV vehicle, Balkan Media Group Limited (BMGL), and sold a 50% stake to Modern Times Group (MTG) of Sweden. MTG has a strong track record in similar businesses, with operations in 17 Eastern European and former Soviet states. This move realises some value for Apace and de-risks this part of the business. BMGL should be able to progress rapidly from here, benefiting from the expertise and greater financial muscle of MTG, so creating greater value for Apace.

- Good price achieved.** Apace has sold a 50% stake in its broadcasting activities and formed a new JV with MTG. The JV covers four countries in the Balkan region. The sale values the entire broadcasting business at c £12m. Our recent initiation of coverage note suggested a value of c.£10m (at a 10% discount) once adjusted for minority holdings, so we consider £12m to be a good price. The JV is also now purchasing the minority holding in Diema, which makes up the vast majority of broadcasting profits.
- Growth to accelerate.** We expect that the new JV, DMGL, will be able to grow faster than Apace would have been able to on its own. MTG has great experience in emerging markets, so has great expertise to lend. DMGL should also have greater access to funds, be that equity from its two parent parties or debt, to be able to invest organically and to acquire. Rather than the limited funds it had, Apace should now have cash balances of c £8-9m and the financial strength of MTG if the JV wishes to gear up.
- Adjustments for the disposal.** As a result of this disposal there are a number of adjustments to be made to the estimates. We now include only 50% of the Broadcasting business, which reduces 2007 EBIT by £562k to £1.373m. This is offset a little by higher interest income (£50k) and lower minority interests (£62k). The net effect is therefore a £132k reduction in net profit, down 9.6% to £1.248m. The drop for 2008 is slightly higher at 10.9% given the growth expected in Broadcasting.

Year to December	2006E	2007E new*	2007E old	Δ %	2008E new*	2008E old	Δ %
Sales – cont (£m)	10.7	16.6	18.9	-12.2	19.5	22.0	-11.7
PBT – cont (£m)	0.0	1.5	2.0	-25.2	2.3	2.9	-21.9
EPS – cont (p)	(0.23)	1.40	1.55	-9.7	1.61	1.79	-10.1
DPS (p)	-	-	-	-	-	-	-
PER (x)	n/a	13.4			11.6		
EV/EBITDA (x)		4.0			2.9		
Yield (%)		-			-		

\* Provisional estimates subject to further discussions with company

- Value still to come.** This deal values the Eastern European assets at c. £12m, with Apace now owning half of that as a JV holding and half in cash. It also demonstrates a real value for the assets and a potential buyer eventually of its remaining stake. At the year end Apace should have had cash of c £1.9m with a further £1.5m received in January from a placement. Its content creation businesses less central costs should make over £1m this year so should be worth £5-6m adjusted for minorities. At £20m (applying a discount to the content creation business), this equates to 22.5p per share. We take this as our new target price and retain our Buy recommendation.

## Forthcoming results, meetings & AGMs

Domino's Pizza & UK & Ireland	20 Feb 07	Final results
Mattioli Woods	20 Feb 07	Interim results
Morgan Crucible	20 Feb 07	Final results
Smallbone*	26 Feb 07	Final results
Pochins*	27 Feb 07	Interim results
Datamonitor	27 Feb 07	Final results
Expomedia Group*	14 Mar 07	Final results
Velosi*	15 Mar 07	Final results
Michelmersh Brick Holdings*	20 Mar 07	Final results
Tikit Group*	23 Mar 07	Final results
Screen Technology*	20 Apr 07	Final results

\* Corporate client of Charles Stanley Securities

If you would like further information regarding any of these results/ meetings then please contact us.

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