

Investors Chronicle 14-20 July

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APACE MEDIA (APA) BUY

16.75p - Aim - Television production companies have historically been tricky investments, but Apace Media is trying to differentiate itself, not least with its foray into Bulgarian television.

The company is split into two television divisions: the UK arm is run by ex-Television Corporation duo Chris Rowlands and Charles Thompson, while the Bulgarian arm is under the leadership of Frenchman Didier Stoessel.

Mr Stoessel, formerly of investment bank HSBC, has worked in eastern Europe for several years. So when he spotted an opportunity in the Bulgarian television market, he bought two companies, Diema and MMTV, which between them own six cable television channels in the region. This now looks a shrewd move, with the Bulgarian economy - and its advertising industry in particular - growing fast ahead of its proposed entry into the European Union in the next few years.

Apace has also been busy improving the content on its channels. It has the rights to major films in Bulgaria as well as Spanish, French, Italian and English football, although the English Premiership contract is up for grabs this year. This improvement in content quality has already allowed it to increase the amount it charges subscribers. So, along with plans to launch a family channel this year, management believes that revenues in Bulgaria will grow by 40 per cent in 2006.

Apace is even looking at buying broadcasters in neighbouring countries, including Albania, Bosnia and Macedonia. This move is potentially risky, but Mr Stoessel's experience in the region should stand the company in good stead.

In addition, Apace's presence in Bulgaria opens up opportunities for its UK content-creation arm, which can trial new program ideas in the territory at low cost. This strategy has been helped by changes to programme ownership brought about by the Communications Act, which mean that once a program has been recorded, the rights to its format for overseas sales are retained by the creator. That gives companies such as Apace new global reach.

Meanwhile, in the UK, Apace is creating a diversified television production business in a bid to avoid being reliant on a few key projects. It has been contracted by BBC1 to produce an eight-part series called Helicops, and an additional seven hours of police programming. The company has also secured deals with the Discovery Channel and National Geographic, and further projects are under discussion in the US and Australia. Any formats successful in the UK can also be sold abroad.

Apace has a strong track record in sports production, too, specialising in rugby, sailing, squash and rallying. It has moved into advertiser-funded programming, as well, whereby a major brand funds the creation of a television programme in return for the sponsorship rights. Apace made the Fans United pre-World Cup series on behalf of Unilever, and has filmed a pilot for Nissan, for example.

Content creation and television production are therefore expected to see significant growth over the next year. The risk remains the timing on deal announcements, but Apace hopes the breadth of its potential projects will mitigate this.

The final part to the group is Apace Music, which produces mid-market compilation albums, under titles such as Mastercuts and Bar de Lune, for retailers including Asda, Boots, Borders and Sainsbury. It released 80 albums last year and is now planning to expand overseas. This division enjoys high margins due to its low-cost methods, and also acts as a music provider for Apace's content.

Overall, then, in the 18 months to December, turnover hit £1.99m and pre-tax losses came in at £496,000. However, the inclusion of Steadfast Television, the production company acquired late in September that brought Mr Rowlands and Mr Thompson into the fold, should make a significant difference this year.

So house broker Seymour Pierce expects sales of £12.2m for this year, giving EPS of 0.4p. This should rise to 2.2p in 2007, valuing the company at 7.6 times expected earnings. That is just too low. Buy.

Ord price: 16.75p	Market value: £12m
Touch: 15.5-18p	12-month High: 76p Low: 16p
Dividend yield: nil*	PE ratio: 42*
Net asset value: 18.1p**	Net Cash: £3.7m

**Includes intangible assets of £4.2m, or 6p a share

Year to 31 Dec	Turnover (£m)	Pre-tax profit (£m)	Earnings per share (p)	Dividend per share (p)
2005§	1.99	-0.5	-3.37	nil
2006*	12.20	0.7	0.40	nil
% change	-	-	-	-

§18 Months to 31 Dec 2005

Beta: 0.61

*Seymour Pierce estimates

Market makers: 5

Normal market size: 2,000

Last IC view: na

BULL POINTS

- Strong management team
- Growth opportunities in Bulgaria
- Diversifying revenue streams in UK

BEAR POINTS

- Contract timing can be unpredictable
- Acquisition risk