



# Advanced Inflight Alliance

Buy

Media / Inflight Entertainment

Share price: €2.67

Target price: €5.20

## 21 August 2009

DAX index	5.311
Market cap. (€mn / \$mn)	38.7 / 55.1
Free float (€mn / %)	19.8 / 100.0
12 Month High / Low (€)	2.67 / 1.18
Daily trading volume	200.000
Q3 report	13 November 2009
Bloomberg / Reuters	DVNI GR / DVNGk.F

31/12 (€mn)	2007	2008	2009e	2010e
Sales	88.5	107.4	114.0	118.3
EBITDA	5.7	13.9	14.8	15.3
EBIT	3.8	10.0	10.0	10.3
Net income	3.7	6.8	7.2	7.9

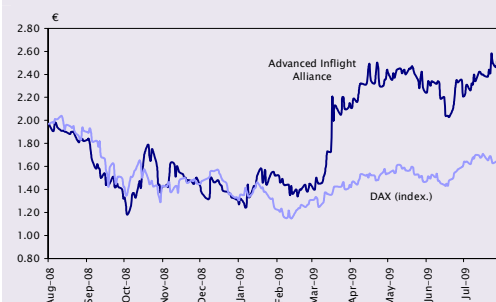
(€)	2007	2008	2009e	2010e
EPS	0.24	0.46	0.49	0.54
CFPS	0.36	0.73	0.82	0.89
BVPS	1.81	1.82	2.34	2.89
FCFPS	0.16	-0.23	-0.11	0.61
Dividend	0.00	0.08	0.08	0.08

(%)	2007	2008	2009e	2010e
EBITDA margin	6.5	13.0	12.9	12.9
EBIT margin	4.3	9.3	8.8	8.7
Dividend yield	0.0	6.0	3.0	3.0

(x)	2007	2008	2009e	2010e
P/E	8.7	3.7	5.4	4.9
P/E rel. DAX	0.6	0.4	0.4	0.4
P/CF	5.7	2.3	3.3	3.0
P/BV	1.1	0.9	1.1	0.9
EV/sales	0.2	0.2	0.3	0.2
EV/EBITDA	2.6	1.2	2.5	1.8
EV/EBIT	3.9	1.6	3.7	2.7

Main shareholders	%
Lars Tvede	11.0
Axxion	5.6
Hauck & Aufhäuser	5.1

Performance (%)	-1M	-3M	-12M
Absolute	14.6	13.6	72.3
Relative to DAX	2.4	8.5	70.9



Source: Capital IQ

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## Sky-scraping figures

### Exceptionally strong Q2 figures

Advanced Inflight Alliance delivered unexpectedly strong Q2/09 figures, significantly above our expectations. Q2 sales exceeded our forecasts by 18.6% even though the company lost Northwest Airlines as a client. Backed by currency gains (\$/€ 1.36 in Q2/09 vs. 1.56 in Q2/08) both subsidiaries Inflight Productions and DTI have shown impressive growth rates in the second quarter, basically unaffected by the global recession. EBITDA increased by 4.1% to €3.2mn, whereas EBIT decreased to €1.9mn from €2.3mn, following €0.5mn e. o. amortization charges of AIA's film assets. Net income was €1.5mn or 4.9% of sales, partly helped by a declining tax ratio. EPS was €0.11 vs. €0.12 in Q2/08.

We expect operating cash flow to be more or less in line with EBITDA (eViscardi €2.5mn). Therefore, AIA's cash position should have been around €13mn after Q2/09. This is quite noticeable, since AIA a) had reduced its long-term debt as scheduled, b) paid out dividends of €1.2mn in Q2/09 and c) made significant earn-out payments contingent on the 2008 performance to the previous DTI and Fairdeal owners. Final figures will be disclosed on 08/31.

### KPI Q2/09 reported vs. Viscardi estimates

		Reported	eViscardi	Δ
Revenues	€mn	31.9	26.9	18.6%
YoY	%	21.3%	2.2%	19.0pp
EBITDA	€mn	3.2	2.7	17.3%
in % of revenues	%	10.0%	10.1%	-0.1pp
EBIT	€mn	1.9	2.0	-2.2%
in % of revenues	%	6.0%	7.3%	-1.3pp
Net income	€mn	1.5	1.3	16.9%
EPS	€	0.11	0.09	16.9%

Sources: Advanced Inflight Alliance, Viscardi

### Change of our estimates

It is now for the first time that we believe that AIA is going to exceed the previous year's earnings figures in 2009e, even though H2/09 is going to be tougher than H1/09. We are moderately upgrading our FY2009e and FY2010e forecasts following the better than expected Q2 figures as follows.

### Change of our estimates

		new 2009e	old 2009e	Delta 2009e	new 2010e	old 2010e	Delta 2010e
Revenues	€mn	114.0	111.5	2.3%	118.3	115.7	2.2%
EBITDA	€mn	14.8	13.8	6.9%	15.3	14.2	7.7%
EBIT	€mn	10.0	9.7	3.3%	10.3	9.9	4.1%
EPS	€	0.49	0.46	7.6%	0.54	0.52	4.7%

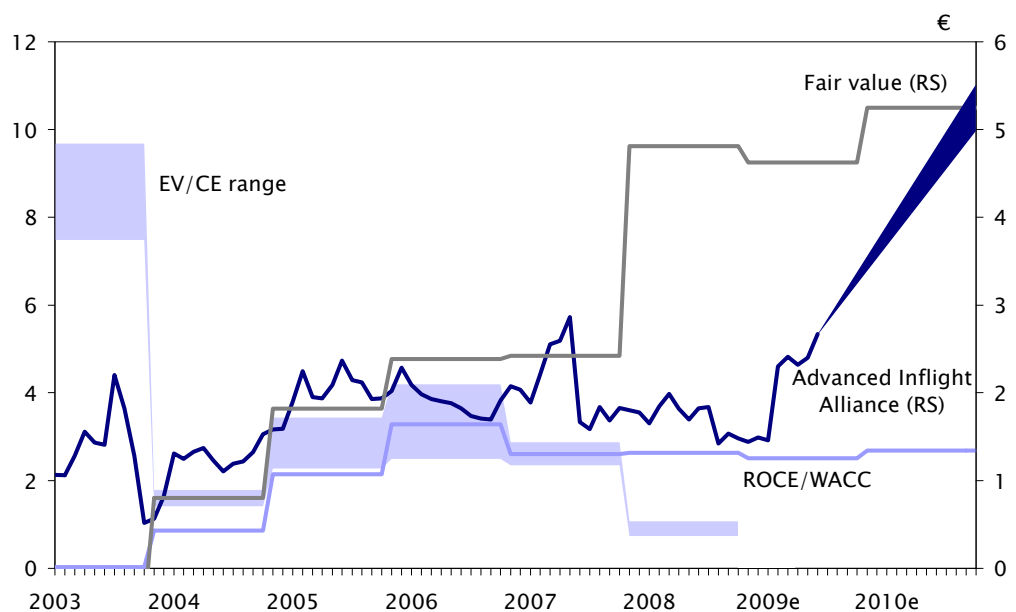
Source: Viscardi

Please note the additional information on the last pages.

**We reiterate our Buy rating and raise our price target to €5.20**

On the current level, Advanced Inflight Alliance trades at 1.8x 2010e EV/EBITDA and 4.9x 2010e P/E. We derive our price target from a blend of our proprietary ROCE methodology (50%) and a standardized three-stage DCF model (50%). Our ROCE methodology is based on WACC of 11.7% (Rf 3.5%, Rp 5.0%, beta 1.8, and target equity ratio 50%) and NOPAT for FY2009e and FY2010e of €9.9mn and €10.3mn, respectively. Applying a 25% small caps discount to reflect low market cap. of the shares, our value-added analysis suggests a 12-month target price of €5.40 per share. In our standardized three-stage DCF methodology, our price target comes to €5.00 per share. Our 12-month price target of €5.20 (before €5.10) implies 95% upside potential. At our price target, Advanced Inflight Alliance would trade on a 2010e EV/EBIT of 6.3x, which is still below AIA’s long-run average (2004–2008).

**Economic profit model, fair value and price performance, 2004–2010e**



Source: Capital IQ, VISCARDI

**Investment risks**

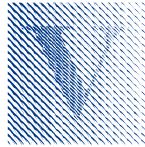
Risks relate to an ongoing negative news flow, the cyclicality of the airline industry – whose overall market sentiment cannot fail to impact the Advanced Inflight Alliance share –, FX volatility and a delay in the company's M&A plans.

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Date:	Target Price:	Investment Recommendation:	Conflict of Interest (Key)
20/08/2009	5.20	Buy	1
15/05/2009	5.10	Buy	1
08/04/2009	4.70	Buy	1

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**Buy:** We expect a stock to move within 10% of the benchmark.

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