



23 May 2007

Media

United Kingdom

Buy

192p

## Confirming upgrades

### Event

Interim results were ahead of forecast, even allowing for the timing of the Ukraine Tourist show. The outlook comment for the full year was "resoundingly buoyant".

### Impact

We are increasing our PBT forecast by nearly 10% to £33.3m and EPS to 9.6p. This is a rise of 7%. Whilst the revenue increase has been modest, the key driver has been the indicated success of some of the big Moscow shows that are driving up gross margin.

### Recommendation

We have revised our target price up to 210p. This is based on a 25% premium to the 12-month forward PER for the Professional publishing sector. We maintain our buy recommendation, given the potential for further goods news on trading, on the imminent resolution of the CEO search process and with the share buy back programme now instigated.

#### Performance

Year End: 1 September	2005	2006	2007E	2008E	2009E
Turnover (£m)	78.5	82.4	97.6	99.5	113.3
EBITDA (£m)	25.0	26.8	34.6	33.9	39.6
EBITA (£m)	25.0	26.8	34.0	33.3	39.1
EBITA Margin (%)	31.8	32.6	34.9	33.5	34.5
PBT (Normalised) (£m)	25.1	25.5	33.3	33.3	39.7
Tax Rate (%)	27.3	30.0	30.0	30.0	30.0
EPS (Normalised) - Fully Diluted (p)	6.9	7.5	9.6	9.6	10.7
EPS (Reported) - Fully Diluted (p)	7.0	7.3	9.0	9.0	10.1
DPS (p)	2.75	3.50	4.18	4.59	5.05

Source: Company Accounts/Investec Securities Estimates

#### Valuation

Year End: 1 September	2005	2006	2007E	2008E	2009E
PE (Normalised) (x)	27.7	25.6	20.0	20.0	18.0
EV/Sales (x)	6.2	5.8	4.7	4.5	3.7
EV/EBITDA (x)	19.4	17.8	13.3	13.2	10.7
FCF Yield (%)	4.6	3.6	5.3	4.9	6.2
Yield (%)	1.4	1.8	2.2	2.4	2.6

Source: Company Accounts/Investec Securities Estimates

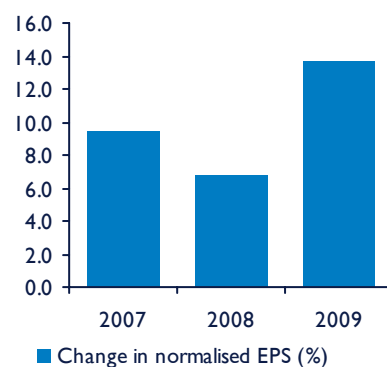
Note: Figures above are IFRS Compliant

Refer to important disclosures starting on page 5

Potential Upside 9.5%

Target Price 210p

#### Impact On Estimates



Source: Investec Securities Estimates

Market Cap	£498m
Enterprise Value	£460m
Reuters Code	ITE.L
12m high/low	193p/113p

#### Share Price Performance



Source: JCF Group

#### Analysts

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## Key points

### Share buyback programme

The company has confirmed its intention to return capital to shareholders. Rather than pursue a rigid tender programme that would limit the range of options open to the incoming CEO, the company has indicated a more flexible rolling buyback programme. There are no guides as to price or timing. The core constraints are the authorisation given the company at the AGM, and the informal indication that the scale of the buyback would be limited to the free cash flow of the company less dividend payments.

To put the deal in context, we are forecasting in the current year for free cashflow post dividend payment to amount to £17.1m. If this money were used to buy stock today at 193p the impact on 2008 forecasts would be to enhancing earnings by c 2%. We believe the company is looking to achieve this scale of buyback over the balance of the financial year.

We have not included any share buyback in our forecasts.

### The hunt for the new CEO

No announcement was made. However, in the meeting the company gave clear indication that the process was well advanced, and that an announcement could be expected at any time.

### Current trading

The commentary here was very positive. In particular, Mosbuild, the group's single largest show, took place in April. In aggregate the company sold 85,000 sq metres. Importantly as well as the 24% additional space sold (reflecting both increased space and clearly strong demand), the sales price was increased by Euro 25 at Crocus, equating to c Euros 1.0m additional contribution. It is pleasing to see the company is now in a position to move prices ahead for exhibitors at Crocus. The return to some measure of pricing power is welcomed.

MIOGE is due to take place in June. To date the show has sold in excess of 20,000 sq metres - 28% ahead of the 15.6k sold two years ago.

Outside of Moscow, trading in St Petersburg has been flat. Kazakhstan is buoyant especially in the shows where ITE has Moscow strength – oil, construction and food. In contrast, the recently acquired Agrihort show in the Ukraine, though not mirroring a strong show elsewhere, has delivered very strong sales growth.

### Cashflow

It is interesting to note how in this half year the company has clearly focused on driving the business, There has been little activity in the way of capex,

venue loans or acquisition. Working capital has been strong (though with Mosbuild and Mioge happening so soon after the balance sheet date this is no surprise). The lack of activity can be interpreted as not committing the company to a course of action with which the new CEO might feel uncomfortable. We would expect the company to resume bolt-on acquisitions and further venue loan deals following the appointment of the new CEO.

### Valuation

In our view this company offers:

- Strong growth, driven by both external dynamics (economic growth in the territories in which it operates, increase in venue space) and internal (good cost control).
- Strategic value. Allied to the first point is the market leadership ITE enjoys in these high growth areas that we believe makes the company a valuable strategic asset.
- Cash generation – the company has returned £30m of excess capital in July 2005, and being again in possession of considerable cash is proposing to use £15m to £20m to effect a share buyback.

These characteristics suggest to us that a premium to the professional publishing sector is appropriate. In our judgement a 25% premium on a rolling forward 12 month PER implies currently a target price of 210p. This should deliver around 10% potential upside and so we maintain our buy recommendation.

**Summary P&L (£m) - IFRS compliant**

Year End: 1 September	2005	2006	2007E	2008E	2009E
Russia	48.4	49.9	62.4	60.3	70.6
Central Asia	12.1	15.4	17.7	20.4	23.4
UK and Western Europe	6.0	7.8	8.2	8.6	9.0
ROW	12.0	9.3	9.3	10.2	10.2
<b>Turnover</b>	<b>78.5</b>	<b>82.4</b>	<b>97.6</b>	<b>99.5</b>	<b>113.3</b>
<b>EBITDA</b>	<b>25.0</b>	<b>26.8</b>	<b>34.6</b>	<b>33.9</b>	<b>39.6</b>
Depreciation	(0.4)	(0.6)	(0.6)	(0.6)	(0.7)
<b>Operating profit</b>	<b>24.6</b>	<b>26.2</b>	<b>34.0</b>	<b>33.2</b>	<b>39.0</b>
Share Based Payments	(1.1)	(1.6)	(1.6)	(1.6)	(1.6)
Other Income, JV's & Associates	0.4	0.6	0.0	0.1	0.1
Net Interest	1.3	0.3	0.9	1.6	2.2
<b>PBT (Normalised)</b>	<b>25.1</b>	<b>25.5</b>	<b>33.3</b>	<b>33.3</b>	<b>39.7</b>
Pension Finance Cost	0.0	0.0	0.0	0.0	0.0
Goodwill	(0.4)	(1.3)	(1.5)	(1.5)	(1.5)
Exceptionals	0.4	0.6	0.0	0.0	0.0
<b>PBT (Reported)</b>	<b>25.2</b>	<b>24.8</b>	<b>31.8</b>	<b>31.8</b>	<b>38.2</b>
Taxation	(6.9)	(7.7)	(10.0)	(10.0)	(11.9)
Minorities & Preference Dividends	0.0	0.0	0.0	0.0	0.0
Profit Attributable	18.4	17.4	21.8	21.8	26.3
Ordinary Dividend	(7.1)	(8.8)	(10.5)	(11.5)	(12.7)
Retained Profit	11.3	8.6	11.4	10.3	13.6
EPS (Reported) - Fully Diluted (p)	7.0	7.3	9.0	9.0	10.1
<b>EPS (Normalised) - Fully Diluted (p)</b>	<b>6.9</b>	<b>7.5</b>	<b>9.6</b>	<b>9.6</b>	<b>10.7</b>
DPS (p)	2.75	3.50	4.18	4.59	5.05
Average no. of Shares - Fully Diluted (m)	279.9	259.2	260.0	260.0	260.0

Source: Company Accounts/Investec Securities Estimates

**Summary Cash Flow (£m)- IFRS compliant**

Year End: 1 September	2005	2006	2007E	2008E	2009E
Operating profit	24.6	26.2	34.0	33.2	39.0
Depreciation	0.4	0.6	0.6	0.6	0.7
Other Non-Cash Movements	1.4	(1.6)	0.0	0.0	0.0
Change in Working Capital	3.0	9.0	2.1	0.3	1.9
Other Cash Movements	0.0	0.0	0.0	0.0	0.0
<b>Operating cash flow</b>	<b>29.4</b>	<b>34.2</b>	<b>36.7</b>	<b>34.2</b>	<b>41.5</b>
Interest	1.5	0.3	0.9	1.6	2.2
Dividends from Associates & JV's	0.4	0.4	0.1	0.0	0.0
Tax	(8.4)	(9.1)	(10.0)	(10.0)	(11.9)
Net Capex	0.0	(7.8)	(1.1)	(1.1)	(1.1)
<b>Free Cash Flow</b>	<b>22.9</b>	<b>18.0</b>	<b>26.6</b>	<b>24.6</b>	<b>30.7</b>
Dividends Paid	(7.1)	(7.1)	(9.5)	(10.8)	(7.9)
Cash Impact of Exceptionals	0.0	0.0	0.0	0.0	0.0
Acquisitions & Disposals	(5.8)	(3.0)	0.0	0.0	0.0
Share Issues	(30.0)	0.0	0.0	0.0	0.0
Other Financial	(0.6)	0.2	0.0	0.0	0.0
<b>Change in net debt</b>	<b>(20.5)</b>	<b>8.2</b>	<b>17.0</b>	<b>13.9</b>	<b>22.8</b>

Source: Company Accounts/Investec Securities Estimates

**Summary Balance Sheet (£m)- IFRS compliant**

Year End: 1 September	2005	2006	2007E	2008E	2009E
Intangible Fixed Assets	40.2	42.3	40.8	39.3	36.0
Tangible Fixed Assets	1.1	1.3	1.3	1.2	1.2
Net Working Capital	(20.3)	(11.3)	(13.4)	(13.6)	(15.5)
<b>Assets Employed</b>	<b>21.0</b>	<b>32.3</b>	<b>28.7</b>	<b>26.9</b>	<b>21.6</b>
Investments/Other Assets	(0.6)	(8.9)	(11.0)	(12.8)	(16.7)
Net Cash/(Debt)	13.0	21.2	38.2	52.2	75.0
Provisions & Other Liabilities (inc. Pension)	(1.1)	(0.9)	(0.9)	(0.9)	(0.9)
<b>Net assets</b>	<b>32.3</b>	<b>43.7</b>	<b>55.0</b>	<b>65.4</b>	<b>79.0</b>
Minority Interests	(0.2)	0.0	0.0	0.0	(0.1)

Source: Company Accounts/Investec Securities Estimates

## Definition of Research Ratings

	Expected 12m performance vs the FT Allshare
<b>Buy</b>	Appreciation of 10% or more
<b>Hold</b>	Appreciation or depreciation of less than 10%
<b>Sell</b>	Depreciation of 10% or more

## UK Stock Ratings Distribution

	Coverage Universe		Investment Banking Clients	
	Count	% of total	Count	% of rating category
<b>Buy</b>	117	48%	36	31%
<b>Hold</b>	108	44%	21	19%
<b>Sell</b>	20	8%	1	5%

Source: Investec

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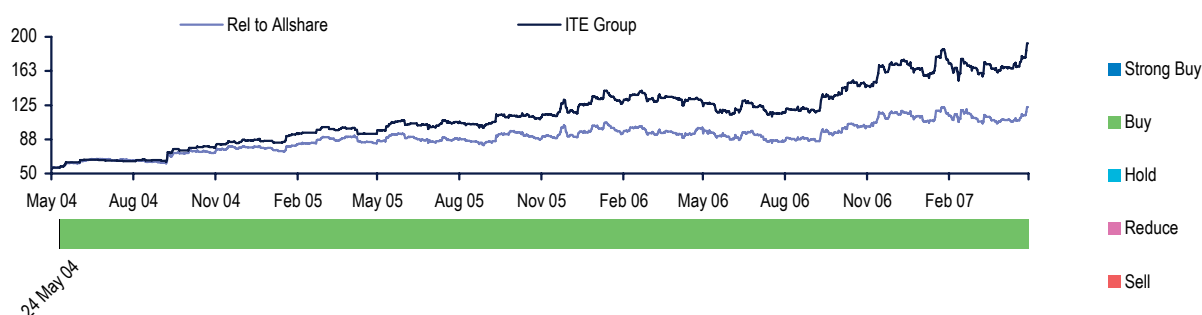
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## ITE Group Ratings Plotter as at 23 May 07



Source: JCF Group/Investec Securities

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