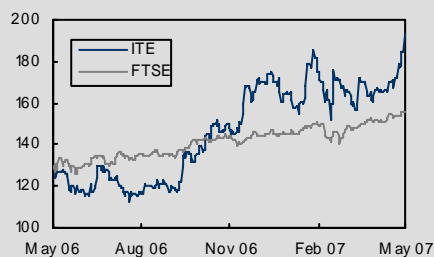


**BUY****Flash Note**

22 May 2007

**At a Glance**

Price (p):	193
Target Price (p):	222
Upside/Downside (%):	+15
Sector:	Media
Main Listing Index:	FTSE Small Cap
Shares in issue (m):	253.5
Market Cap. (£m):	499
Net Cash (FY'07E) (£m):	41
Share Buyback last 12mth:	n/a
Free Float (%):	85
12mth range (p):	113-194

**Share Price Performance**

Source: Perfect Information.  
Price as of 22 May 2007

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**ITE Group (ITE.L)****Solid Success**

As expected strong interim results have led us to upgrade forecasts and the company has announced a rolling share buyback program. We view the latter as a flexible interim choice ahead of the appointment of the new CEO. We expect firmer action on excess capital in due course. There is scope for forecasts to rise further and therefore we lift our target price to 222p from 180p to reflect this and the likelihood of a firmer approach to the excess capital issue.

**Investment Case**

**Good results** – Strong like-for-like growth of 14% helped drive revenues up to £31.3m vs our 12% organic expectation and £28.2m assumption. £1.1m of the out performance was due to the unexpected shift of a Travel event from H2 into the end of H1. The majority of the out performance excluding this was driven by good performances from the large key events highlighting the underlying strength of ITE's assets. PBT was driven by these factors and was £5.5m vs our £4m expectation, up 48% on the prior year (32% excluding the Travel event which delivered £600k of profit). The dividend was increased 30% to 1.3p vs our 1.1p estimate and reflects the expected earnings growth for FY'07. Adjusted EPS increased 50% to 1.5p.

**Upgrading forecasts** – We are upgrading our FY'07 PBT 10% to £33.7m (from £30.7m) and FY'08 8% to £33.8m (from £31.3m) reflecting the strong base line performance from 2007. From our perspective, the upside risks to 2007 are MIOGE, the biennial oil and gas event in H2 and in 2008 the construction event Mosbuild. If ITE seeks to utilise the additional available space at Crocus results could surprise substantially. The new capacity coming on stream at Crocus (in addition to the capacity that was ready early and sold by ITE in FY'07 vs our FY'08 expectation) means it is possible that the Mosbuild portfolio could grow to 120,000m<sup>2</sup> in future years from the 85,000 m<sup>2</sup> achieved in 2007. We have not built any benefit from share buybacks into our model due to the nature of the program (see below).

**Excess capital** – The company has announced a rolling share buyback program. The decision to go with a rolling program rather than a tender offer makes sense given the board's desire to retain financial flexibility while waiting to appoint the new CEO. Given the nature of the program and the companies' sensitivity to price, we are not building in any buyback assumptions to our model; however we do consider this in our valuation (see below). We believe it is possible that the company will deal with the excess capital issue more aggressively once the new CEO is in place, and his view has been taken into consideration. The existing CEO has indicated he feels the business could carry debt and noted he wished they had geared up two years earlier.

Year									
End	Sales	PBT	EPS	Cons.	EV/		Net	Div.	
Sep	(£m)	(£m)	(p)	EPS	EBITDA	FCF	Yield	Yield	
				(p)	(x)	(%)	(p)	(%)	
2006A	82.4	26.0	7.0	27.4	18.5	3.6	3.5	1.8	
2007E	97.0	33.7	9.0	21.4	13.9	5.5	4.5	2.3	
2008E	101.7	33.8	9.0	21.6	13.6	5.1	4.5	2.3	

Source: KSFCM Research.

**New CEO** – We expect that the board will appoint an experienced B2B manager with good international experience who is capable of getting deals done. The latter is very important for ITE, particularly as it seeks to enter new markets such as China and India, and retain its strong position in Russia. The company has signalled that an announcement will be made sooner rather than later. We interpret this to mean within a month.

## Valuation

ITE's strength and growth prospects in its core market leading shows should command a high rating in our view. With revenue growth picking up to 14% in H1 (13% 2006, 11% 2005), like-for-like forward bookings running at +15% and ITE's strategic value rising by the day due to its incredibly strong core Russian events, we believe ITE should trade at a prospective multiple of 20x. We also note the high levels of media B2B sector M&A). With full year September 2007 trading pretty much in the bag (exhibitions companies have good visibility levels and the company believes it has 90% of consensus market expectations booked) we elect to focus on FY'08. If we adjust our FY'08 forecast for the biennial off-year (ie averaging the biennial effect) we arrive at a Fair Value of 188p applying the earnings multiple of 20.

**Balance sheet inefficiency** – The above valuation does not reflect the inefficiency of the balance sheet that we are convinced the board is keen to address. We therefore note two alternative valuations based on our existing forecasts: (i) assuming a cash return of 45p per share, c£114m (this would take Net debt/EBITDA to just 2.1x, a very modest level) we estimate a Fair Value of 203p using the same underlying earnings approach, (ii) if we adjust for a share buyback of a similar value the Fair Value is 207p.

**Scope for more upgrades** – With the large biennial MIOGE (Moscow Oil & Gas) event still to be run (end of June) there is probably still some potential for 2007 results to surprise on the upside. We estimate 2007 PBT results could be 3% or £1m better. This is a modest margin, and we believe our 2008 expectations have more scope to rise. We have just 8% organic growth pegged in for non-biennial 2008 events and believe that ITE is likely to be able to deliver underlying (ie excluding biennial effects) double digit growth if not low teens again, particularly if it can continue to expand Mosbuild into new categories such as heating/venting, or base construction materials. We note that ITE's guidance is typically based on what they can see rather than what they are targeting, this is a cautious approach and is probably in part responsible for the company beating expectations. It is not unreasonable to take the view that given ITE's 2008 earnings could be 6-7% higher if they can deliver low teens revenue growth. Adjusting for this we estimate a Fair Value of 222p. This valuation does not include any premium for a bid and therefore we do not see this valuation as aggressive, particularly given the scarcity value of ITE's quality exhibitions assets in the key Russian market.

## Risks

While ITE's geographic exposure should never be ignored, the company has proven itself strong in maintaining its market positions, particularly with respect to key venues. We do not believe that the new CEO will be aggressive on the acquisition front given the boards preference for organic growth.

## Catalysts

The appointment of a respected CEO should secure investor confidence and in combination with a stronger commitment regarding the excess capital, drive the share price. We also note the scope for upgrades.

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