VISCARDI AG
INVESTMENT BANKING

# Advanced Inflight Alliance

**Media / Inflight Entertainment**

# Buy

**Share price: €2.50**
**Target price: €5.10**

| 15 May 2009 | |
|---|---|
| DAX index | 4,728 |
| Market cap. (€mn / $mn) | 36.3 / 49.4 |
| Free float (€mn / %) | 19.8 / 100.0 |
| 12 Month High / Low (€) | 2.50 / 1.18 |
| Daily trading volume | 200,000 |
| AGM | 12 June 2009 |
| Bloomberg / Reuters | DVN1 GR / DVNGk.F |

| 31/12 (€mn) | 2007 | 2008 | 2009e | 2010e |
|---|---|---|---|---|
| Sales | 88.5 | 107.4 | 111.5 | 115.7 |
| EBITDA | 5.7 | 13.9 | 13.8 | 14.2 |
| EBIT | 3.8 | 10.0 | 9.7 | 9.9 |
| Net income | 3.7 | 6.8 | 6.7 | 7.6 |

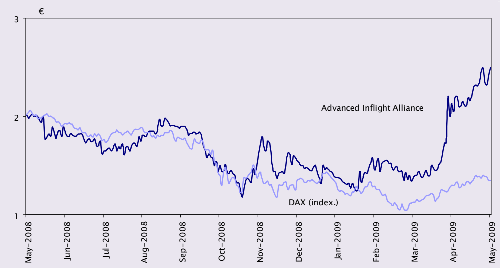
| (€) | 2007 | 2008 | 2009e | 2010e |
|---|---|---|---|---|
| EPS | 0.24 | 0.46 | 0.46 | 0.52 |
| CFPS | 0.36 | 0.73 | 0.74 | 0.82 |
| BVPS | 1.81 | 1.82 | 2.31 | 2.83 |
| FCFPS | 0.16 | -0.23 | 0.82 | 0.60 |
| Dividend | 0.00 | 0.08 | 0.08 | 0.08 |

| (%) | 2007 | 2008 | 2009e | 2010e |
|---|---|---|---|---|
| EBITDA margin | 6.5 | 13.0 | 12.3 | 12.2 |
| EBIT margin | 4.3 | 9.3 | 8.7 | 8.6 |
| Dividend yield | 0.0 | 6.1 | 3.2 | 1.6 |

| (x) | 2007 | 2008 | 2009e | 2010e |
|---|---|---|---|---|
| P/E | 8.7 | 3.7 | 5.4 | 4.8 |
| P/E rel. DAX | 0.6 | 0.4 | 0.5 | 0.4 |
| P/CF | 5.7 | 2.3 | 3.4 | 3.1 |
| P/BV | 1.1 | 0.9 | 1.1 | 0.9 |
| EV/sales | 0.2 | 0.1 | 0.2 | 0.1 |
| EV/EBITDA | 2.6 | 1.2 | 1.5 | 0.9 |
| EV/EBIT | 3.9 | 1.6 | 2.2 | 1.2 |

| Main shareholders | % |
|---|---|
| Axxion | 6.3 |
| Lars Tvede | 5.3 |
| Grand Haven | 4.2 |
| Hauck & Aufhäuser | 3.1 |

| Performance (%) | -1M | -3M | -12M |
|---|---|---|---|
| Absolute | 17.4 | 59.2 | 42.9 |
| Relative to DAX | 5.2 | 54.2 | 41.5 |



Source: Capital IQ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## Company in climbing flight

### Another strong quarter

In its interim report published today, Advanced Inflight Alliance reported strong Q1/09 sales and EBITDA figures, well above our estimates. Revenues came in at €27.4mn (+14.2% YoY), backed by ongoing demand for inflight entertainment and full quarter consolidation of DTI and Fairdeal. EBITDA for Q1/09 was €3.3mn, up from €2.0mn in Q1/08, mainly reflecting synergy effects from the latest acquisitions and the newly introduced single sourcing over the AIA group. Assuming equal depreciation, slightly higher financial costs and a tax rate of around 25%, net income and EPS should have been around €1.8mn and €0.12, respectively.

### "The state of the airline industry today is grim", IATA says

The IATA projects demand to fall sharply with passenger traffic expected to contract by 5.7% over the year. Industry revenues are expected to fall by 12.0% to $467bn. The loss forecast for the airline industry is now $4.7bn.

### Change of our estimates

We are upgrading our FY2009e and FY2010e revenues and earnings forecasts following the better than expected Q1 figures. We have raised our FY2009e sales forecasts by 4.9% to €111.5mn and our FY2010e sales forecast by 5.6% to €115.7mn. We have raised our FY2009e EBITDA estimate to €13.8mn from €11.0mn, and our FY2010e EBITDA estimate to €14,2mn from €12.0mn. Our EPS forecast for FY2009e is now €0.44, up from €0.29. For 2010e, we now forecast an estimate of €0.57 instead of €0.34.

### We reiterate our Buy rating, raising PT to €5.10 from €4.70

On the current level, Advanced Inflight Alliance trades at 0.9x 2010e EV/EBITDA and 4.8x 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 11.2% (Rf 3.0%, Rp 5.0%, beta 1.8, target equity ratio 50%) and NOPAT for FY2009e and FY2010e of €9.2mn and €9.5mn, respectively. Applying a 25% small caps discount to reflect low liquidity of the shares, our value-added analysis suggests a 12-month target price of €5.20 per share. In our standardized three-stage DCF methodology, our price target comes to €5.00 per share. Our 12-month price target of €5.10 (before €4.70) implies 104% potential downside. At our price target, Advanced Inflight Alliance would trade on a 2010e EV/EBIT of 5.0x, which is still below AIA's long-run average (2004-2008).

### 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.


Please note the additional information on the last pages.

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**Investment Recommendations (12 months):**

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

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- is party to an agreement with the issuer that is the subject of the analysis relating to the production of the recommendation,
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**Buy**: We expect a stock to rise by at least 20% and outperform the benchmark by over 10%.

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

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The benchmark for the stocks analysed in this publication is the DAX.

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