

Highlight Communications

Buy

Media

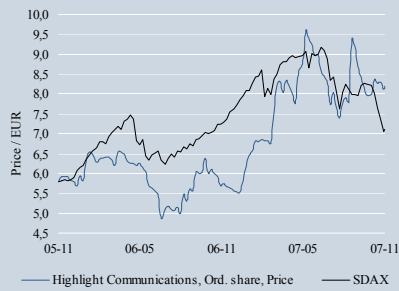
Fair Value EUR10

2007-11-27

Price EUR8.20 (Closing price as of 2007-11-26)

Applied disclosures can be found in the appendix

Price and rel. Performance



Market Data

Reuters	HLGZ.DE
Bloomberg	HLG GR
Market cap €bn	0,4
Free float %	64,2

Key Data

Yr.end 12/31	2006	2007e	2008e
Revenues m	333,74	335,93	355,82
Net profit m	16,26	16,26	18,31
Adj. EPS €	0,35	0,34	0,39
PER	16,9	23,8	21,2
EV/EBIT	11,8	16,4	14,0
EBIT mgn. %	9,1	8,8	9,5

EPS CAGR 06-09e: 3 %

Next Events

Sonia Rabussier, CEFA, MBA
+49 (0) 69/71 34 - 51 99
sonia.rabussier@oppenheim.de
Oppenheim Research GmbH, Frankfurt

DISAPPOINTING RESULTS DUE TO A WEAK THEATRICAL SEASON

INVESTMENT CASE AND PERFORMANCE TRIGGER

Thanks to its unique selling position as the leading independent German film producer, via Constantin Film and a Sports and Events Marketing agency, Highlight Communications offers an attractive investment in the entertainment industry. Sustained by the Sports and Events Marketing division, operative earnings should grow on average over the next three years by 10.5%. Q3 was disappointing, owing to weak Constantin figures in the theatrical division. We expect EM. Sport Media to increase its stake in Highlight from currently 36% (incl. Kirsch option) to 50.1%, which should drive the stock. We have a **buy** rating with a fair value of €10.

FACTS

As expected, Highlight reported weak Q3 figures due to a disappointing theatrical season for Constantin Film. The Sport and Events Marketing division, in the contrast, developed well, and is in line with our expectations.

In Q3, revenues amounted to CHF 135m, down 21% vs. last year and exceeding our estimates of €129m. The downturn is due to an exceptionally strong Q3 2006, thanks to the positive impact of the World Cup in the sports division and the release of the blockbuster "Perfume" in the film division.

EBIT results were disappointing at CHF 8.7m, corresponding to a margin of 6.4% vs. the expected 7.6%. While the Sport and Events Marketing segment could improve its margin from 40% to 46%, the film division saw its operating margin dropping from 6.5% to 1.6%.

Net earnings came out at CHF 6.2m vs. an expected CHF 5.6m.

ASSESSMENT

We believe that Constantin Film will have problems in reaching its EBIT guidance of €12m for the full year due to the lack of success of the last film releases. However, the Sport and Events Marketing segment continues to perform very well and should enable Highlight to reach the low end of its EPS guidance of €0.36-€0.38.

VALUATION

The business model of Highlight remains attractive, as the high scale effects in the Marketing division will push the earnings over proportionately. We expect EM. Sport Media to increase its stake in Highlight from currently 36% (incl. Kirsch option) to 50.1%, which should drive the stock. We have a buy rating with a fair value of €10 based on our DCF model.

Highlight Communications - P&L (Total Costs)

EURm (Yr. end: 12/31)	2005	2006	2007e	2008e	2009e
Sales	282,4	333,7	335,9	355,8	383,3
Other operating income/expenses (net)	-45,8	-52,6	-53,1	-55,9	-59,5
EBITDA	29,5	31,6	30,9	35,2	42,6
thereof: Depreciation	-3,2	-1,3	-1,3	-1,3	-1,3
EBIT	26,3	30,2	29,5	33,9	41,3
Participation result	-0,2	-3,0	-4,7	-4,7	-4,7
Profit or loss on ordinary activities	26,6	26,5	24,8	29,2	36,5
EBT	26,6	26,5	24,8	29,2	36,5
Taxes	-7,6	-8,5	-6,7	-8,7	-11,0
Profit / loss for the year (cont. operations)	19,1	18,0	18,1	20,4	25,6
Minority interest	-5,2	-1,8	-1,8	-2,1	-7,6
Net profit	13,8	16,3	16,3	18,3	18,0
Adjusted net profit	13,8	16,3	16,3	18,3	18,0

Key ratios and figures

EURm (Yr. end: 12/31)	2005	2006	2007e	2008e	2009e
Valuation					
PER	16,2	16,9	23,8	21,2	21,5
P/BV	3,8	5,8	7,7	6,0	5,0
Dividend yield %	1,2	1,2	1,1	1,1	1,2
EV/Sales	1,1	1,1	1,4	1,3	1,5
EV/EBITDA	10,8	11,3	15,7	13,5	13,4
Sustainable FCF yield %	-3,7	4,2	5,5	6,6	9,4
Data per share					
Weighted avg. number of shares	45,89	46,70	47,25	47,25	47,25
EPS (reported)	0,30	0,35	0,34	0,39	0,38
adj. EPS	0,30	0,35	0,34	0,39	0,38
Dividend	0,07	0,09	0,09	0,10	0,10
Book value per share	1,27	1,02	1,07	1,36	1,64
Sustainable FCFPS	-0,2	0,2	0,4	0,4	0,7
Growth rates %					
Sales	-10,8	18,2	0,7	5,9	7,7
EBITDA	0,6	7,1	-2,2	14,1	21,0
EBIT	2,8	15,1	-2,3	14,7	21,8
Net profit	24,9	17,6	-0,0	12,6	-1,7
adj. EPS	27,2	15,6	-1,2	12,6	-1,7
Margins %					
EBITDA	10,4	9,5	9,2	9,9	11,1
EBIT	9,3	9,1	8,8	9,5	10,8
Net profit	4,9	4,9	4,8	5,1	4,7
Expense ratios %					
Depreciation to sales (Total Cost)	1,1	0,4	0,4	0,4	0,3
Tax rate	28,4	32,1	27,2	30,0	30,0
Other ratios					
Interest cover	nm	nm	nm	nm	nm

IMPORTANT REGULATORY DISCLOSURES

This research report has been prepared by Oppenheim Research GmbH, a wholly-owned subsidiary of Sal. Oppenheim jr. & Cie KGaA, and/or the research department of Bank Sal. Oppenheim jr. & Cie. (Switzerland) Ltd. and/or Bank Sal. Oppenheim jr. & Cie (Austria) AG (collectively, together with their affiliates, "Sal. Oppenheim").

Sal. Oppenheim's policy prohibits research analysts, strategists and research associates from investing in securities in their sub-industry as defined by the Global Industry Classification Standard, which was developed by and is the exclusive property of Morgan Stanley Capital International and Standard & Poor's. Research analysts, strategists and research associates may nevertheless own such securities to the extent acquired under a prior policy or in a merger, fund distribution or other involuntary acquisition.

Analyst certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that, with respect to each security or issuer that the analyst covered in this report:

all of the views expressed accurately reflect his or her personal views about those securities or issuers; and

no part of his or her compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed by the analyst in the research report.

Disclosures about potential conflicts of interest

We refer to the following potential conflict(s) of interest:

Advising: Sal. Oppenheim jr. , Cie. KGaA and/or its affiliated entities is making sell or buy orders on a market , thus acting as designated sponsor for Highlight Communications.

3

Rating system

Securities firms use a variety of rating terms and systems to describe their recommendations. Sal. Oppenheim uses a rating system with the categories STRONG BUY, BUY, NEUTRAL, REDUCE and SELL (see definitions below).

A rating system using such terms as Overweight, Equal Weight or Underweight is not equivalent to our rating system. Investors should carefully read the definitions of the rating system used in each research report. In addition, since the research report contains more complete information concerning analyst's views, investors should carefully read the entire research report and not infer its contents from the ratings alone. In any case, ratings (or research) should not be used or relied upon as investment advice. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations.

The ratings in this report are based on the analyst's expectations of the absolute change in stock price over a period of 6 to 12 months and reflect the analyst's view of the potential for change in stock price as a percentage. The STRONG BUY and SELL ratings reflect the analyst's expected high change in the value of the stock.

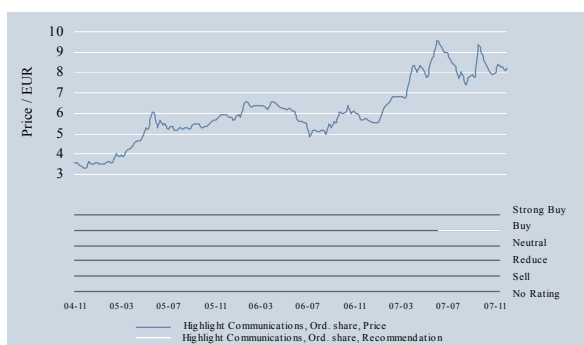
The levels of change expressed in each rating categories are: STRONG BUY (> 20%); BUY (> 10%); NEUTRAL (0% to 10%); REDUCE (< 0%); and SELL (< -10%).

The change in stock price results from the difference between the current share price and the analyst's performance expectations, which are generally based on a fair value calculation performed on the basis of a discounted free cash flow model and a key comparables analysis.

In general, updated ratings are provided in connection with material events, such as changes in credit ratings, significant model adjustments and the publication of periodic financial information.

Ratings distribution

The following table discloses, for each of Sal. Oppenheim's rating categories, the percentage of (1) all companies covered by Sal. Oppenheim and (2) companies for which Sal. Oppenheim provided investment banking services during the past 12 months that received such rating.



Rating Distribution

Recommendation	Coverage Universe		Investment banking-relationship	
	No.	in %	No.	in %
Strong buy	17	4.4	4	7.0
Buy	172	44.9	35	61.4
Neutral	143	37.3	15	26.3
Reduce	24	6.3	0	0.0
Sell	1	0.3	0	0.0
No rating	26	6.8	3	5.3

Previous report with differing recommendation published at .

ADDITIONAL INFORMATION FOR US INSTITUTIONAL CLIENTS

This research report is being distributed in the United States of America solely to major US institutional investors (as defined in Rule 15a-6 under the Securities Exchange Act of 1934, as amended). Sal. Oppenheim jr. & Cie. Securities Inc. accepts responsibility for the content of reports prepared by its non-US affiliates when distributed to major US institutional investors. Major US institutional investors who wish to effect any transaction in securities mentioned in this research report should do so with Sal. Oppenheim jr. & Cie. Securities Inc. at the address below and not with Sal. Oppenheim jr. & Cie. KGaA or any other Sal. Oppenheim affiliate.

Sal. Oppenheim jr. & Cie. Securities Inc.
444 Madison Avenue, 34th floor
New York, NY 10022
Tel: +1 212 888 52 46
Fax: +1 212 888 0916
E-Mail: jhagenbuch@sal-oppenheim.com

Sal. Oppenheim jr. & Cie. Securities Inc. is a broker-dealer registered with the Securities and Exchange Commission as well as a member of the National Association of Securities Dealers and the Securities Investor Protection Corporation.

ADDITIONAL INFORMATION FOR U.K. CLIENTS

In the United Kingdom, this report is approved and/or distributed by Sal. Oppenheim jr. & Cie. KGaA or by Bank Sal. Oppenheim jr. & Cie. (Switzerland) Ltd or by Bank Sal. Oppenheim jr. & Cie. (Austria) AG. Sal. Oppenheim jr. & Cie. KGaA registered as a German bank, Bank Sal. Oppenheim jr. & Cie. (Switzerland) Ltd. registered as a Swiss bank and Bank Sal. Oppenheim jr. & Cie. (Austria) AG registered as an Austrian bank have no place of business in the United Kingdom and are not regulated under the Financial Services and Markets Act 2000. The protections provided by the U.K. regulatory system will not be applicable to the recipients of any information or documentation provided by Sal. Oppenheim jr. & Cie KGaA or by Bank Sal. Oppenheim jr. & Cie. (Switzerland) Ltd., or by Bank Sal. Oppenheim jr. & Cie. (Austria) AG and compensation under the Financial Services Compensation Scheme will not be available.

4 Any contact with analysts, brokers or other employees of Sal. Oppenheim jr. & Cie. KGaA, Bank Sal. Oppenheim jr. & Cie. (Switzerland) Ltd. or Bank Sal. Oppenheim jr. & Cie. (Austria) AG must be directly with the relevant bank and not through the offices or employees of any other Sal. Oppenheim affiliate in the United Kingdom

In the United Kingdom, this document is being distributed only to persons who have professional experience in matters relating to investments falling within Article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or to persons to whom it may otherwise be lawfully communicated under the Order (together, "relevant persons"). This document must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is only available to relevant persons and will be engaged in only with relevant persons.

ADDITIONAL INFORMATION FOR CLIENTS IN GERMANY, SWITZERLAND, AUSTRIA AND OTHER COUNTRIES

In Germany, this research report is approved and/or distributed by Oppenheim Research GmbH in Cologne, a wholly-owned subsidiary of Sal. Oppenheim jr. & Cie KGaA in Cologne, authorized by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin).

In Switzerland, this research report is approved and/or distributed by Sal. Oppenheim jr. & Cie. (Schweiz) AG authorized by the Eidgenössische Bankenkommission (EBK).

In Austria, this research report is approved and/or distributed by Sal. Oppenheim jr. & Cie. (Austria) AG authorized by the Finanzmarktaufsicht (FMA).

Laws and regulations of other countries may also restrict the distribution of this report. Persons in possession of this document should inform themselves about possible legal restrictions and observe them accordingly.

FURTHER INFORMATION

For further information on how Sal. Oppenheim manages conflicts of interest and maintains independence of its research product and on certain additional disclosures concerning research recommendations, especially in light of the continuing requirements of § 34 b of the German Securities Trading Act (WpHG), please refer to the homepage of Sal. Oppenheim: http://www.oppenheim.de/de/04_research/06_compliance/04_06.htm

DISCLAIMER

This research report contains selected information and does not purport to be complete. The research report is based on publicly available information and data (the "Information") that is believed to be accurate and complete. Sal. Oppenheim has not independently verified the accuracy and completeness of the Information, nor does it guarantee such accuracy and completeness. Possible errors or incompleteness of the Information do not constitute grounds for liability, either with regard to indirect or to direct or consequential damages. In particular, Sal. Oppenheim is not liable for the statements, plans or other details contained in the Information concerning the examined companies, their associated companies, strategies, economic situations, market and competitive situations, regulatory environment, etc. Although due care has been taken in compiling the Information, no assurance can be provided that the Information is complete or free from error.

Neither Sal. Oppenheim nor its shareholders and employees are liable for the accuracy and completeness of the statements, estimates and conclusions derived from the Information contained in this research report. To the extent this research report is being transmitted in connection with an existing contractual relationship, e.g., financial advisory or similar services, the liability of Sal. Oppenheim shall be restricted to gross negligence and wilful misconduct. In any case, the liability of Sal. Oppenheim is limited to typical, foreseeable damages and liability for any indirect damages is excluded.

This report does not constitute an offer to sell, or a solicitation of an offer to purchase, any security. Sal. Oppenheim may perform investment banking services or other services for companies mentioned in this report. Directors or employees of Sal. Oppenheim may serve on the board of directors of companies mentioned in this report. Opinions expressed in this report are subject to change without notice.

Past performance is not a guide to future results. The price of securities may decrease or increase and as a result investors may lose the amount originally invested. Changes in exchange rates may also cause the value of investments to decrease or increase. Any documents or information we provide is directed solely to persons we reasonably believe to be investment professionals.

All such communications and any activity to which they relate are available only to such investment professionals; any activity arising from such communications will only be carried out with investment professionals. Persons who do not have professional experience in matters relating to investments should not rely upon such communications.

Produced by:

Sonia Rabussier, CEFA, MBA
Telephone +49 (0) 69/71 34 - 51 99
sonia.rabussier@oppenheim.de
Oppenheim Research GmbH,
Frankfurt

Sal. Oppenheim jr. & Cie. KGaA

Unter Sachsenhausen 4
 50667 Köln
 Telephone +49 (2 21) 1 45 – 01

Untermainanlage 1
 60329 Frankfurt am Main
 Telephone +49 (69) 71 34 – 0

Odeonsplatz 12
 80539 München
 Telephone +49 (89) 29 00 74 – 0

www.oppenheim.de
 info@oppenheim.de

Oppenheim Research GmbH

Unter Sachsenhausen 4
 50667 Köln
 Telephone +49 (2 21) 1 45 – 02

Untermainanlage 1
 60329 Frankfurt am Main
 Telephone +49 (69) 71 34 – 0

www.oppenheim-research.de
 research@oppenheim.de

Bank Sal. Oppenheim jr. & Cie.
 (Schweiz) AG

Uraniastrasse 28
 CH-8022 Zürich
 Telephone + 41 (44) 2 14 22 14

Sal. Oppenheim jr. & Cie.
 Securities Inc.

444 Madison Avenue, 34th Floor
 New York, N.Y. 10022
 USA
 Telephone + 1 (2 12) 8 88 52 46

Bank Sal. Oppenheim jr. & Cie.
 (Österreich) AG

Palais Equitable
 Stock im Eisen-Platz 3
 1010 Vienna
 Telephone + 43 (1) 518 66 0

Publishing Team
 Monika Laqua (DTP)

Press contact:
 Tel. +49 221 145-2998
 presse@oppenheim.de

Further locations in:

Baden-Baden, Berlin, Dublin, Duesseldorf, Geneva, Hamburg, Luxembourg, Salzburg, Stuttgart,
 Wiesbaden

For further information please contact the institutional sales desk of Sal. Oppenheim jr. & Cie.