

# Tangent Communications

UK | Media | TNG | TNG LN

26 November 2009

## Signs of stabilisation

Interim results for 6 months ended 31 August 2009

Yr to Feb £m	2007A	2008A	2009A	2010E	2011E
Sales	8.6	17.4	15.6	17.3	18.1
EBITDA	1.0	2.5	1.4	1.3	1.5
adj. EPS (p)	0.5	0.9	0.5	0.3	0.4
EV/EBITDA (x)	6.6	3.6	6.8	8.4	7.7
P/E (x)	13.4	7.9	14.6	25.1	16.7
Div. Yld (%)	0.0	2.9	2.9	2.9	2.9

Recommendation **BUY**

Price **7p**  
Target **10p**

Market Cap:	£12m
EV:	£11m
Shares issued:	170m
Daily ave. volume:	<1m

### ■ Interim results in-line with expectations

Tangent reported revenue of £8.5m for the 6 months ended 31 August 2009, down 4% y-o-y primarily due to its exposure to the property sector; property-related revenues declined 26% in H1. However, other revenues have been robust (up 11% y-o-y in H1). Underlying operating profit declined to £0.3m (PY: £0.8m), with the margin decline reflecting the operational gearing in the printing business and the increased cost base from recent acquisitions. Tangent ended the period with net cash of £1.6m.

### ■ Growth in online

The acquisition of Lateral in March 2009 added creative strength to Tangent, complementing its strong technology offering and enhancing the online division's ability to win new business. Online revenue (up 48% y-o-y in H1) is now c.24% of total revenue and has new business prospects in the pipeline.

### ■ Lack of earnings visibility in property but recovery potential

Given the continued uncertainty in the housing market, there is lack of earnings visibility in property-related revenues. However, Tangent's retention of estate agency branches is high (underpinning our view that property-related revenues have significant recovery potential) and monthly revenue increasing y-o-y from August 2009 onwards is a positive sign.

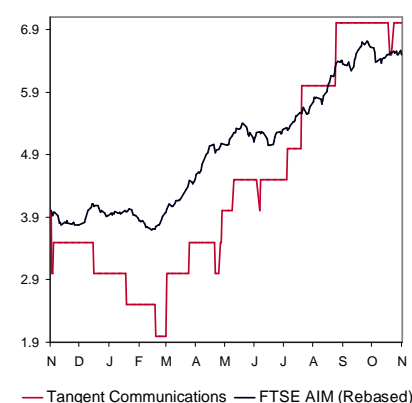
### ■ Upside potential in other initiatives

Zui (JV offering ad-on products to the SAP platform) won its first significant contract in the period. DPP (trade-only digital printing on-demand) has grown from a standing start to achieve sales of £45K in October. Given Tangent has capacity in its digital printing facility the cost of expanding DPP is minimal. These initiatives offer further potential upside.

### ■ SOTP implies 10p price target – reiterate our BUY recommendation

We value Tangent on a SOTP basis, attributing £6m to Ravensworth (price paid by Tangent) and applying the sector P/S multiple (1.1x) to remaining turnover. Adding cash and applying a small cap discount of 20% gives our PT of 10p. With over 40% upside to the current price we reiterate our BUY.

### Stock Performance



Performance	1m	3m	12m
Absolute %	0	17	75
Relative* %	2	5	7

Source: Datastream \*Rel to FTSE AIM

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<b>Recommendations</b>	<b>Buys</b>	<b>Sells</b>	<b>Hold/Neutral</b>
Percentage of Total	47%	17%	36%
Percentage of which in Corporate Client stocks	13%	0%	5%

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