

Onvista

Internet version of our Flash Note dated 20 March 2006; for domestic institutional clients only

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Onvista

Germany

Hitting the roof

- ▶ 2005 profitability better than our expectations
- ▶ Gaining visibility into 2006: sales growth continuing, special dividend announced, further growth via a new portal likely
- ▶ We downgrade to Neutral and increase our notional target price to EUR11.9 (previously EUR9.8)

OnVista reported preliminary 2005 figures. Whereas sales were in line with our expectations, profitability was above our expectations. EBIT came in at EUR0.83m vs HSBCe of EUR0.61m mainly driven by the lower than expected production costs in Q4. The main contributor to sales and profitability was the good performance of finance portal business in Q4. OnVista has also announced the long-awaited special dividend which at EUR3.75/per share (yield: 26.8%) slightly exceeds our expectations. Additionally, the company has proposed a regular dividend for the first time in its history, amounting to EUR0.10 (yield: 0.7%) per share, which we regard as a positive signal for the future. Furthermore, CEO Fritz Oidtmann will leave the company after the AGM in June, not a surprising move as he was responsible for the divested stake in IS Teledata. Current CFO, Michael W. Schwetje, will also assume the role of CEO. On a negative note, the company did not very much positively surprise on the 2006 outlook with sales (EUR12.5m) and PBT (>EUR2m) guidance slightly below our expectations (EUR12.9m and EUR2.4m respectively). However, as in the past, the company could upwardly adjust the guidance during the course of 2006.

OnVista key figures

EURm	2004a	2005a	2005e	y-o-y
Sales	6.95	9.74	9.80	40%
EBIT	0.02	0.83	0.61	+.%
PBT	0.92	1.61	1.49	75%
Net Income	0.42	-0.49	-0.50	n.m
Dividend per share	-	0.10	-	

Note: e = HSBC estimates.

Source: Company data, HSBC Trinkaus & Burkhardt estimates

Based on the lack of further positive catalysts, slightly lower than expected 2006 guidance and the strong share price run, we downgrade the stock to Neutral but increase our notional target price range to EUR10.6-13.3 per share (midpoint: EUR11.9) from EUR8.7-10.9 (midpoint: EUR9.8).

Stock data (15:15 CET 17 March 2006)

Current price	Reuters	Bloomberg equity	Bloomberg debt	Valuation range
(EUR) 14.00	ONVG.DE	ONV NF	ONV	EUR10.6-13.3

Source: HSBC

Equity

Flash note

Research team*

Analysts

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No surprise on the top line but profitability much better

OnVista reported FY 2005 sales of EUR 9.74m (+40% y-o-y), in line with HSBCe of EUR9.80m. The company had lifted its FY sales guidance from EUR8m to “significantly higher than EUR9m” following the better-than-expected performance in the Media division during the course of 2005. Finance Portal was the main contributor to sales in Q4. EBIT came in at EUR0.83m (margin: 8.5%; 2004: EUR0.017m), outperforming our estimate of EUR0.61m, benefiting from lower than expected production costs in Q4. PBT at EUR1.61m was also above our estimate of EUR1.49m, which includes an at-equity income of EUR0.59m from the divested IS Teledata stake. Net income, as already communicated by the company, was -EUR0.49m (HSBCe: -EUR0.50m), due to a tax charge resulting from the sale of the IS Teledata stake in November.

2005 absolute sales growth (EUR2.79m) was equally split between Portal and Performance Marketing (Ligatus) businesses, underlining the growing importance of Ligatus for the company. We estimate that the segment accounted for c.35% of Group sales in calendar year 2005 but management signalled that this proportion is to increase in 2006. On a negative note, one has to be aware of the fact that Ligatus yields lower margins than Finance Portal. On the other hand, there is scalability within this division (workforce of 12 employees accounting for bulk of fixed costs). Therefore, for superior future profitability, growth from Portal Business should be key in the coming quarters. In 2005, both segments significantly benefited from the booming online advertisement market in Germany. We expect this development to continue in 2006.

New strategy becomes visible, special dividend of EUR3.75 proposed

The company has announced that it will propose a special dividend of EUR3.75 per share (yield: 26.8% underlying share price EUR14.00) at its AGM on June 27, 2006 (total value of the special distribution amounts to EUR25.1m) to be paid out in 2007. This is not surprising as OnVista has often said it was considering such a distribution; nevertheless the absolute amount is somewhat above our expectations. The company's cash reserves amounted to EUR40.1m as of 31 December 2005, following the sale of its IS Teledata stake (cash inflow EUR15.2m). Another milestone in the company's history is the announcement of a first time dividend proposal of EUR0.10 per share (yield: 0.7%, total amount: EUR0.7m corresponding to a pay-out ratio of 31.5%) which should form part of future strategy.

After the special payout and regular dividend, we estimate the company would have net cash of EUR14.3m which will be used for internal as well as external growth. We regard this amount as fully sufficient to generate future growth and see an increased chance of either the introduction of a new special interest portal (self-made) or an acquisition in the second half of 2006. An acquisition could represent a further positive trigger for the share price, yet we believe it is more likely that the company will grow organically.

Changes in the Executive Board: CEO leaving the company

OnVista has also announced that CEO Fritz Oidtmann will leave the company after the AGM on 27 June 2006. This is not very surprising as Mr. Oidtmann was mainly responsible for the divested Technologies Division (IS Teledata). Current CFO Michael W. Schwetje will now assume both CEO and CFO responsibilities. Furthermore, two directors are appointed for the two operating segments: Dennis Kämker (32 years old, since 2000 with the company) and Dr. Lars-Rüdiger Fink (33, since 2005 with the company after an assignment in 1999 and 2000) will assume responsibilities of the Portal Business and Ligatus respectively.

2006 outlook: no surprise on the upside

OnVista is expecting sales to grow to EUR12.5m (+28% y-o-y) vs HSBCe EUR12.9m. Management said that PBT would grow disproportionately to more than EUR2m (+35% y-o-y). We expect PBT to grow EUR2.4m in 2006. However, management numbers exclude possible acquisitions or organic additions to the business during the course of the year.

The sales contribution of Ligatus to Group sales would increase to approx. 45% (HSBCe: from currently c. 35%) underlining the strong growth in the online marketing environment in Germany. Management signalled further investments in the health portal onmeda.de to increase its reach in the market; break-even is forecast for 2007.

Valuation: downgrade to Neutral with new notional price target of EUR11.9

We downgrade our rating to Neutral. On one hand, we expect further growth in both businesses, namely portal and performance marketing, in 2006, both benefiting from booming online marketing market either organically and inorganically. On the other hand, OnVista shares have increased over 130% since November 2005 (announcement of IS Teledata sale, new guidance and Q3 figures); and we think that the share price will come down slightly and therefore we are no longer buyers at these levels.

We value OnVista using a SOP valuation. The company's main value comes from its cash position (which increased to EUR40.1m as of 31 December 2005 following the sale of its IS.Teledata stake). The valuation of the media activities is based on the range of EV/Sales multiples of a peer group of listed internet companies.

We believe that OnVista has better growth prospects and superior profitability in comparison to its closest peers. Whereas OnVista's closest peers are forecast to have average revenue growth rates of around 17% and 16% in 2006 and 2007, respectively (according to JCF estimates), we expect OnVista to grow by 32% and 34% respectively in the same timeframe. Furthermore, average EBIT margin of the same peers lies at 5.2% (2006e) and 8.8% (2007e), whereas we expect OnVista to achieve an EBIT margin of 9.0% in 2006 and 11% in 2007. This justifies a premium to the fair value generated by the above methodology.

Applying a 20% premium to our sales multiple range (but a 12% liquidity discount to the final valuation) yields a new fair value range of EUR10.6-13.3 (old: EUR 8.7-10.9), with a notional mid-point of EUR11.9 (old: EUR9.8) implying potential downside of 15%.

OnVista SOP valuation

(EUR '000)	Sales 2007e	Multiple Range		Asset Value Range		Per share		Asset Value in %
Net Cash	40.1	1.00		40.1		6.0		45%
Media	17.3	2.28	3.48	39.52	60.32	5.95	9.08	55%
Fair Value				79.62	100.42	11.99	15.12	100%
Liquidity discount (12%)				9.55	12.05	1.44	1.81	-12%
Fair Value incl. discount				70.07	88.37	10.55	13.31	88%

Source: HSBC estimates; Please note that media multiples range includes a 20% premium

Risks to our rating could come from a deteriorating online marketing market in Germany and continuing high level of investments in onmeda not yielding fruit. Should the bullish online marketing sentiment reverse in 2006, both segments would be badly hurt.

Disclosure appendix

Stock ratings and basis for financial analysis

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Stock (vs Local universe)

- ▶ Overweight (Buy)
- ▶ Neutral (Hold)
- ▶ Underweight (Sell)

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For companies covered on a sector basis, we apply a ratings structure which ranks the stocks according to their notional target price vs current market price and then categorises (approximately) the top 40% as Overweight, the next 40% as Neutral and the last 20% as Underweight. The performance horizon is 2 years. The notional target price is defined as the mid-point of the analysts' valuation for a stock.

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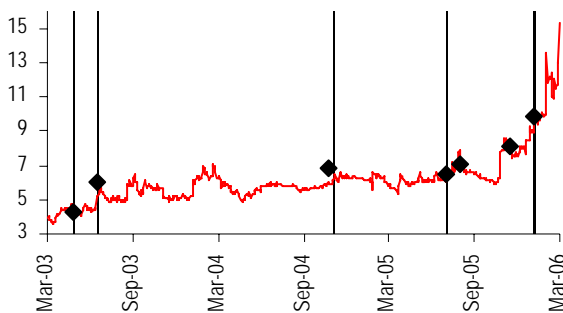
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As of 17 March 2006, the distribution of all ratings published is as follows:

Overweight/Buy	41%	(37% of these provided with Investment Banking Services)
Neutral/Hold	40%	(41% of these provided with Investment Banking Services)
Underweight/Sell	19%	(32% of these provided with Investment Banking Services)

Share price and rating changes for long-term investment opportunities

Onvista share price performance EUR vs HSBC rating history



Source: HSBC

Rating & price target history

From	To	Date
Add	Reduce	12 May 2003
Reduce	Add	30 June 2003
Add	N/R	15 November 2004
N/R	Neutral	19 July 2005
Neutral	Overweight	23 January 2006
Target price	Value	Date
Price 1	4.25	12 May 2003
Price 2	6.00	30 June 2003
Price 3	6.80	08 November 2004
Price 4	N/A	15 November 2004
Price 5	6.50	19 July 2005
Price 6	7.12	18 August 2005
Price 7	8.05	02 December 2005
Price 8	9.81	23 January 2006

Source: HSBC

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Company	Ticker	Recent price	Disclosure
Onvista	ONVG.DE	14.00	2, 3, 4, 5, 6

Source: HSBC

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