

MediaHouse Limited

Ticker: MHL - BH
Sector: Media

Fiscal Year-End: Sept. 30, 2006
Web Site: www.mediahouse.com

Share Price (09/30/07): \$6.75
Stock Rating: Strong Buy
Risk Profile: Moderate
1-Year Target Price: \$21.00
1-Year Implied ROR: 211.1%

Annual Dividend: none
Current Yield: n/a
Payout Ratio: n/a
Ex-Dividend Date: n/a
Frequency: n/a

Shares O/S: 494k
Market Cap: \$3.0m
BSX Weight: 0.10%
Book Value: \$11.20
Price/Book: 0.60x

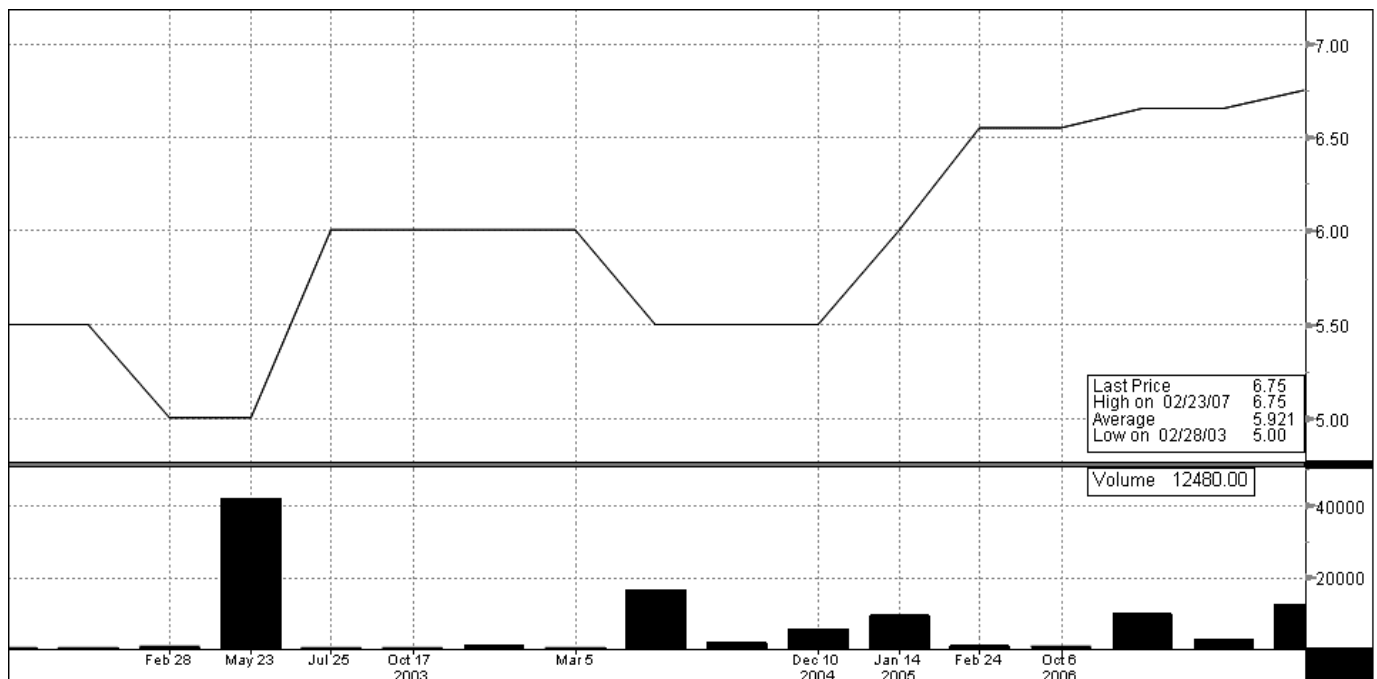
52-Week High: \$6.75
52-Week Low: \$6.55
Avg. Monthly Volume: 2,100

Current P/E Ratio: 3.14x
Shareholder's Equity: \$5.5m
Total Assets: \$25.7m
Return on Equity: 20.0%
Return on Assets: 4.3%

	2004	2005	2006	2007E
EPS:	\$0.23	(\$1.07)	\$2.15	\$7.00
YoY Growth:	(66.7%)	n/a	n/a	225.6%
P/E Ratio:	23.91x	n/a	3.05x	3.00x
Fiscal YE Price:	\$5.50	\$6.00	\$6.55	

Note: MHL has 108,882 in cumulative, redeemable 8% preferred shares outstanding (par value = \$5; last trade price = \$4.50)

MHL 5-year price/volume chart:



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Company Description

MediaHouse Limited (MHL) and its subsidiaries are the publishers of the bi-weekly newspaper “The Bermuda Sun”, the tourist guides “Preview of Bermuda”, and a variety of Caribbean telephone directories. In addition, the company is in the business of high-quality commercial printing (through Island Press), operates an electrical services business, and maintains various internet portals which focus on e-business, including the web site “Bermuda.com”.

During 2006, the company added MediaHouse ASP Limited to its group of subsidiaries, which will focus on e-business by providing interactive mapping systems, e-directories, and other technology-based products and services.

2006 Results

After a lengthy delay, MediaHouse reported net profit for the fiscal year 2006 of \$1.1 million, or an impressive \$2.15 per share. Coinciding with this report, the company restated its entire 2005 financials, which showed a loss for the year of \$0.5 million. Total sales for 2006 came in at \$23.5 million, representing an increase of 13.1% over 2005 revenue of \$20.8 million. A good portion of this increase was related to growth in the company’s Caribbean Directories unit. Indeed, sales for MHL’s printing division (comprised of commercial and retail printing, as well as directory publishing) rose 12.7% year-on-year, whereas revenues related to its “old growth” publishing businesses (i.e. BDA Sun, magazines) fell by 5.3%. “Other revenues” representing property rental, the electrical business, and internet advertising climbed an impressive 208% year-on-year. We would imply that this growth was chiefly related to MHL’s internet-related initiatives.

Half-Year 2007 Results

MediaHouse recently reported a profit for the six months ended March 31st, 2007 of \$3.0 million, equating to a substantial \$6.07 per share of MHL. A good portion of this income was related to the Caribbean directories division, whose sales revenue has been “front-loaded” to the first half of the fiscal year. Management reports that these results have been achieved through “aggressive business developments, strategic expansion, steady revenue growth, and expense control.” It appears as though the MHL’s shift in focus from the slow-growth publishing business towards fast-growth digital media endeavours has “born fruit” so-to-speak. Indeed, the “bar has been raised” for the company’s earnings announcements going forward.

Forecast and Recommendation

Due to its complex corporate structure and recent reorganization, MediaHouse represents somewhat of an anomaly among the BSX small cap issuers. Unlike its competitor, Bermuda Press Holdings, MediaHouse appears to have leveraged its expertise in both commercial printing and content creation into successful media ventures. Thus, we find the expansion of MHL’s Caribbean directories publishing business and its related online content to be a sound business decision, and the source of continued future growth. As a comparable success story, one need look no further than Keytech’s incredibly profitable subsidiary, The Bermuda Yellow Pages. Further, the company has kept printing and labour costs under tight control.

Our 2007 operating earnings expectations for MediaHouse amount to \$7.00 per share. We apply a conservative 3.00x multiple to this estimate and arrive at a one-year price target of \$21.00. LOM recommends MediaHouse as a “strong buy”, noting that the most recent trading price of \$6.75 bears little correlation to our projected valuation of the company. We would further remind investors that the stock is tightly-held and extremely illiquid, having last traded on the BSX in February 2007.