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7 November 2007

Hong Kong Media

Reuters 2366.HK
Bloomberg 2366 HK

Priced on 6 November 2007

HK HSI @ 29,438.1

12M hi/lo HK\$5.59/1.87

12M price target HK\$6.60
±% potential +35%
Target set on 7 Nov 07

Shares in issue 578.5m
Free float (est.) 51.8%

Market cap US\$365m

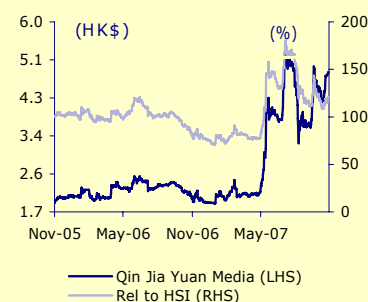
3M average daily volume
HK\$9.7m (US\$1.3m)

Major shareholders

Anita Leung / Philip Wong 31.3%
Aegis plc 16.9%

Stock performance (%)

	1M	3M	12M
Absolute	7.7	7.7	145.0
Relative	1.8	(19.7)	57.6
Abs (US\$)	7.6	8.6	145.6



Source: Bloomberg

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China media network

Qin Jia Yuan Media (QJY), a HK-based media services company, is well positioned to benefit from China's growing TV advertising industry - as drama production is exchanged for ad slots, and with the recent acquisition of the ad rights to TV channels in Hubei, Chongqing and Xiamen. The stock is trading at 15x forward earnings vs 07-09CL EPS Cagr of 30%. With increased institutional interest, QJY is now under formal CLSA coverage. Our HK\$6.60 target, set at 20x 08CL earnings, implies 35% upside. Follow the directors, who are recent BUYERS.

What's new from CLSA's Small-cap Access Day?

The key focus area from investors related to the new TV advertising platform. Management projects HK\$20m annual contribution from the Hubei TV channel advertising business alone, a number we feel could be conservative in the long run. While management is budgeting operating margin of 60%, in reality this percentage is likely to be higher as the company acquires more ad rights giving greater economies of scale.

Longer term

Not only does QJY plan to acquire more TV channel ad rights, the company wants to become a major supplier of TV drama series to TV stations in China, where they feel good-quality content is lacking. Longer term, management is aiming to increase its market share of annual TV drama programming from 4% (216 episodes) in 2006 to 15-20% (ie, 750-1000 episodes) by 2010.

Catalysts

The company will announce FYSep07 earnings on 26 November. We believe recent insider buying activity prior to the 'blackout' period is a good indicator of the quality of results expected. Management is also planning to acquire ad rights for another two TV channels in China before calendar year end.

Valuation

QJY Media's share price has risen 8% in the past month, and has been a strong performer in the past year; up 145%. The stock is now trading at 15x forward earnings, which we consider very attractive against 06-09CL EPS Cagr of 30% and versus China small cap media PEs of 23x. Reflecting a valuation re-rating from increased institutional interest balanced against execution risks, we have raised our fair value target to HK\$6.60/share (from HK\$5/share previously), on 20x 08CL earnings (vs a previous 15x).

Financials

Year to 30 Sep	05A	06A	07CL	08CL	09CL
Revenue (HK\$m)	106	125	188	320	384
Net profit (HK\$m)	66	84	122	189	207
EPS (HK¢)	14.1	16.4	21.1	32.8	35.8
CL/consensus(2)(EPS%)	-	-	93	97	100
EPS (% YoY)	11.9	16.3	28.4	55.5	9.2
PEX (@HK\$4.90)	34.8	29.9	23.3	15.0	13.7
EV/Op Ebitda (x)	29.2	26.3	18.7	11.4	9.6
Dividend yield (%)	0.7	0.7	0.9	1.3	1.5
ROAE (%)	22.4	18.3	17.0	19.3	17.8
Price/book (x)	6.1	4.7	3.2	2.7	2.3
Net cash (HK\$m)	96	75	206	94	155

Source: CLSA Asia-Pacific Markets

China media play

Drama production JVs

Advertising rights

Except for broadcasting, QJY Media is involved in all other typical activities of a TV station

Business, competition and market franchise

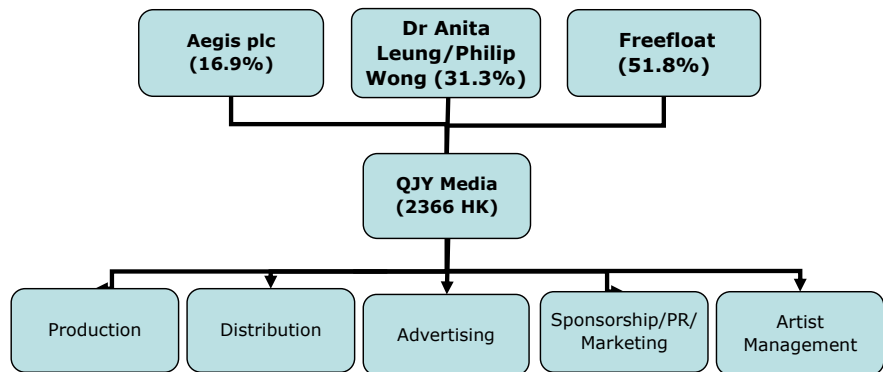
Qin Jia Yuan Media (QJY) is a HK based media related services company focused on the production of TV dramas in China. Founded in 1995 by novelist Dr Anita Leung, QJY provides a one-stop media planning service, supplying TV dramas to PRC mainland TV stations in exchange for advertising slots.

QJY has established a long-term collaborative relationship with nine key TV media outlets (Beijing, Chongqing, Dalian, Fujian, Guangdong, Harbin, Hubei, Jiangsu and Shanghai) in China for TV drama production, procurement and sales, and distribution.

The group has recently acquired exclusive advertising rights to the "Film/TV drama" channel of Hubei TV, the "Entertainment" channel of Chongqing TV, and the "Life" channel of Xiamen TV. QJY Media's long term goal is to become a "multimedia supermarket" focused on PRC media.

Figure 1

QJY Media – Simplified organisation chart and shareholding structure



Source: CLSA Asia-Pacific Markets

Market opportunity and competition

Besides national TV broadcaster CCTV, there are 31 provincial and over 2,200 local (city and cable) television stations in the PRC, broadcasting approximately 4,000 channels.

Drama is the most popular TV genre

In the PRC, TV drama series are the most popular TV programme, followed by news and current affairs. Although the market for TV drama has been dominated in recent years by overseas produced programmes, mainly from HK and Taiwan, there have been clear signs of a shift towards domestically produced programmes.

Preferential treatment for HK companies

The PRC government has recently adopted new policies that are beneficial to HK companies engaging in TV program investment, production and distribution in the Mainland. Under these policies, TV dramas jointly produced by Chinese and HK companies will be considered domestically produced dramas and will entitled to broadcast during prime-time.

Key drivers

Drama production and advertising revenues are the two main drivers to monitor

Drama production and advertising revenues are the two main drivers to monitor. QJY Media typically produces TV drama series in exchange for ad slots. The company wants to become a major supplier of TV drama series to TV stations in China, where they feel good-quality content is lacking. Longer term, management is aiming to increase its market share of annual TV drama programming from 4% (216 episodes) in 2006 to 15-20% (ie, 750-1000 episodes) by 2010. QJY has also recently acquired the ad rights to TV channels in Hubei, Chongqing and Xiamen. This new TV advertising platform is expected to further boost ad revenues.

Adding value

China's advertising market is one of the fastest growing

China's ad spend has grown at a Cagr of 17% from 2002-2006

TV accounts for 75% of China's overall advertising expenditure

Olympic fever

Receivable days are high due to nature of industry

Regulatory issues

Figure 2

QJY – Key assumptions and drivers

FYE September	05A	06A	07CL	08CL	09CL
Drama (episodes)	126	216	280	400	500
YoY%	117.2	71.4	29.6	42.9	25.0
Ad/PR/Sponsorship revenues (HK\$m)	50	51	109	208	244
YoY%	(2.5)	1.6	113.5	90.5	17.1
EBIT margins (%)	66.3	68.0	66.9	68.8	71.4
Effective tax rate (%)	3.2	0.4	2.6	13.0	18.2
Payout ratio (%)	21.1	21.9	20.0	20.0	20.0

Source: CLSA Asia-Pacific Markets

China's advertising market is the world's fourth-largest at US\$21bn. It is also one of the fastest growing, with a 17% 2002-06 Cagr on booming consumer demand and advertisers' need to build national brands. With the Beijing Olympics in 2008 and Shanghai World Expo and Guangzhou Asian Games in 2010, we forecast ad-spend in China expanding at 18.3% Cagr from 07-09.

Figure 3

China's rising advertising market



Source: CEIC, CLSA Asia-Pacific Markets

According to CTR market research, China's adspend grew 18% YoY to US\$36.9bn in 2006 and is expected to increase by 20% this year, with further spending from branded consumer companies. Of this, around three-quarters is expected to go to TV media. TV dramas are the most effective medium for advertisers and account for about 43% of total TV adex.

CCTV's auction of its 2007 primetime ad-spot sales last year hit a record Rmb6.79bn, up 16%YoY. Later this month, CCTV will be auctioning next year's airtime, which is tipped to increase by 15-50%. Like last year, we expect an increase to be driven mainly from bids from foreign brands and excitement around new ad products related to the Olympics.

Main risks and investor issues

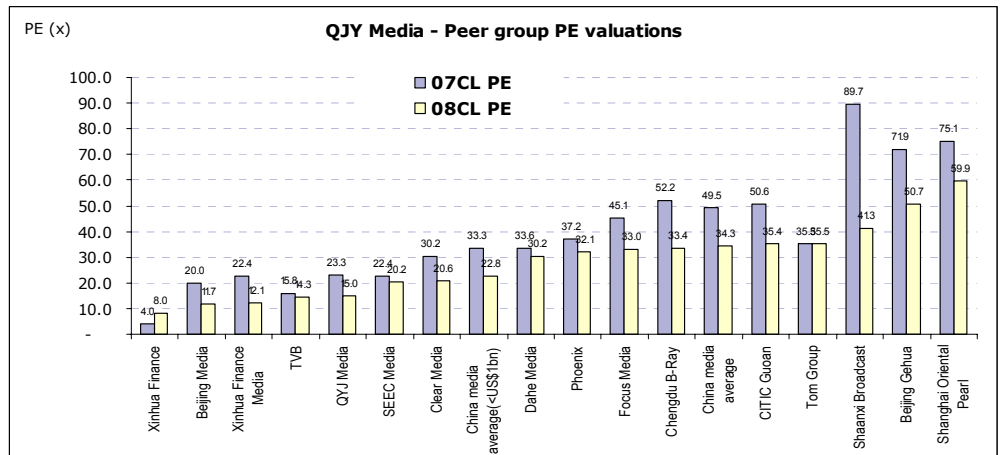
The main investor concerns include the company's long settlement cycle for receivables (debtor days more than two years in 2006) and hence the risk of bad debts; earnings volatility given the project-based nature of TV dramas; reliance on key management; and regulatory risks.

Foreign participation in the production and distribution of TV programmes and advertising is restricted in various aspects in China. However, regulations are constantly changing and it appears that China's drama production market is gradually opening up - especially to HK-based companies under the Closer Economic Partnership Agreement (CEPA). In February 2006, SARFT announced that HK-PRC co-produced TV dramas will be treated as local productions and therefore allowed to be broadcast on national TV stations during prime time.

QJY Media is trading at 15x forward earnings –vs the China small cap media average PE of 23x.

Figure 4

Peer group valuations

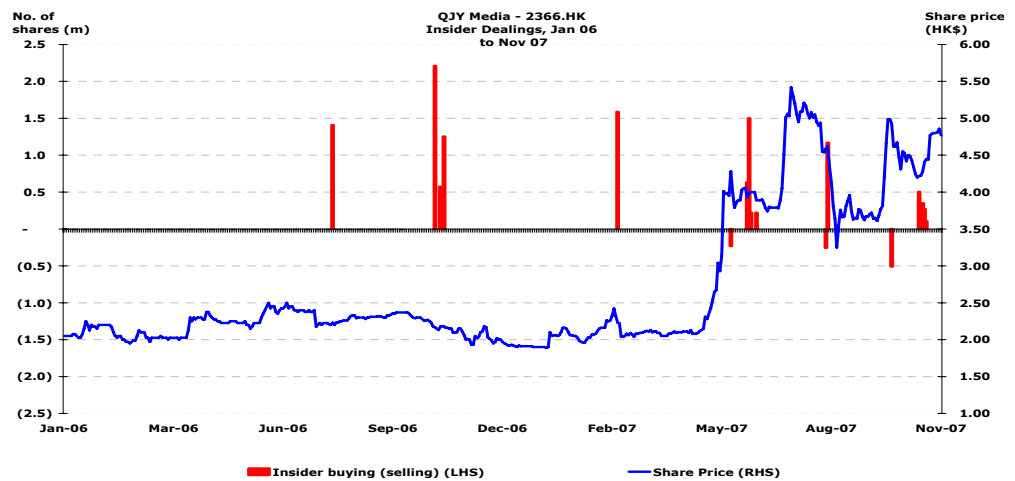


Source: CLSA Asia-Pacific Markets, IBES, Bloomberg

Insiders are recent buyers: Dr Anita Leung purchased 1.22m shares in QJY Media @ HK\$4.24/share in October – only a month before the company is due to report results on 26 November

Figure 5

QJY Media – Director dealings



Source: CLSA Asia-Pacific Markets

With increased institutional interest, QJY Media is now under formal CLSA coverage. Our HK\$6.60 target, set at 20x 08CL earnings, implies 35% upside

Recommendation history - Qin Jia Yuan Media Services 2366 HK

Date	Rec level	Closing price	Target
07 November 2007	BUY		6.60
11 June 2007	N-R	3.93	5.00
22 May 2007	N-R	3.13	4.50
10 May 2007	N-R	2.28	3.66
20 February 2007	N-R	2.16	3.36
16 May 2006	N-R	2.23	3.28

Source: CLSA Asia-Pacific Markets

Key to CLSA investment rankings: BUY = Expected to outperform the local market by >10%; O-PF = Expected to outperform the local market by 0-10%; U-PF = Expected to underperform the local market by 0-10%; SELL = Expected to underperform the local market by >10%. Performance is defined as 12-month total return (including dividends).

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Note: In the interests of timeliness, this document has not been edited.

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