

Company Focus

DBS Group Research . Equity

27 November 2007

BUY HK\$4.79 HSI: 27,627

Price Target: 1-year HK\$6.26

Reason for Report: FY07 final results

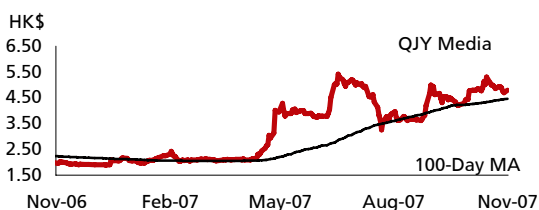
Potential Catalyst: Accelerated expansion via replicating success in Fujian to other parts of China; new channel management business also boosts growth.

ANALYST

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FORECASTS AND VALUATION

FY Sep (HK\$m)	2005A	2006A	2007A	2008F
Turnover	106	125	197	323
EBITDA	76	92	168	245
Pretax Profit	68	84	140	215
Net Profit	66	84	139	200
EPS (HK\$)	0.16	0.17	0.26	0.34
EPS Gth (%)	28.5	6.4	51.9	31.5
PE (x)	29.6	27.8	18.3	13.9
P/Cash Flow (x)	(31.3)	(43.3)	(71.6)	83.8
EV/EBITDA (x)	28.5	25.7	15.8	11.4
DPS (HK\$)	0.03	0.04	0.05	0.07
Div Yield (%)	0.7	0.8	1.1	1.4
Net Gearing (%)	cash	cash	cash	0.2
ROE (%)	22.4	18.3	19.5	20.4
Book Value (HK\$)	0.8	1.0	1.5	1.8
P/Book Value (x)	5.9	4.6	3.1	2.6

SHARE PRICE CHART

AT A GLANCE

Issued Capital (m shrs)		583
Mkt Cap (HK\$m/US\$m)	2,792	/ 359
Major Shareholders (%)		
Leung Anita Fung Yee Maria		31.8
Aegis Group		16.88
Free Float (%)		51.32
Avg Daily Volume (m shrs)		2.4

Earnings Rev: FY08 n.a.

Consensus EPS: FY08: HK\$0.33

Variance vs Cons: FY08: 4.38%

Sector: Media

Bloomberg/Reuters Code: 2366 HK / 2366.HK

Principal Business: A one-stop media service provider, successfully allied with major domestic TV stations in China to provide full range of integrated services, ranging from TV drama concept development and production to distribution and advertising arrangements.

QJY Media

More acquisitions expected

➤ **Story:** QJY Media's FY07 results came in slightly better than expectations. Both revenue and earnings went up strongly by 58% and 67% respectively, to HK\$197m and HK\$139m. Final scrip DPS also grew 56% to HK\$0.028 with an option for dividend in cash.

➤ **Point:** The company's recent performance into 4Q07 continues to stay on track. We also expect management to potentially bring in more TV channels during the coming months, thus strengthening its channel management platform and lifting medium-term growth prospects.

➤ **Relevance:** QJY Media is among the few HK-listed companies that tap directly into the robust TV advertising market of China. Riding on a positive outlook, yet trading at just 13.9x prospective PE, 0.4x PEG, and 23% discount to our target price of HK\$6.26, we maintain BUY.

Strong FY07 results. QJY Media has registered a robust 67% y-o-y increase in FY07 net profit to HK\$139m. This was mainly driven by a healthy growth in TV programme-related revenue (up 15%), as well as strong performances in both its marketing & advertising division (up 130%) and public relations division (up 94%). The company also incurred a HK\$20m forex gain (FY06: HK\$5m) from RMB appreciation, which should continue to show a sustainable trend ahead. Overall, a total of 287 TV drama episodes (FY06: 216) were completed during the year as planned, while new contribution from managing the Drama Channel in Hubei since 1Q07 also provided reasonable returns to the company. Both EBIT and net margin jumped 5ppt and 3.9ppt respectively, to 73% and 70.8%.

More acquisitions ahead. QJY Media has recently acquired the exclusive advertising rights of Jiangxi TV Station's new Red Classic Channel (a movie and TV drama channel). The term is for three years (2008-10) plus options to renew for another three years. By combining an expected rate card of c.RMB150m for its first year with similar operations that the company has secured earlier in Hubei, Chongqing and Xiamen, QJY Media's channel management platform should capture more than RMB2bn worth of gross advertising value by next year. In view of the good turnout, we believe management could speed the growth of this division through proactive acquisitions ahead.

Still a bargain. QJY Media targets to share 10% of China's TV advertising market in three years. So far, the company has earned a sound track record in extracting growth from the lucrative Chinese advertising market. Coupled with its current initiatives to repeat success in other cities of China, and the strong advertising momentum in the lead to 2008 Beijing Olympics, we believe the company could sustain a sound growth in the coming years. Trading at a low 13.9x prospective PE and 0.4x PEG, it is a BUY.

Financials at a Glance

Income Statement (HK\$m)

FY Sep	2005A	2006A	2007A	2008F
Turnover	106	125	197	323
EBITDA	76	92	168	245
Depr/Amort	(5)	(7)	(24)	(27)
Opg Profit	70	85	144	219
Associates Inc	-	-	-	-
Interest (Exp)/Inc	(2)	(1)	(4)	(3)
Exceptionals	-	-	-	-
Pre-Tax Profit	68	84	140	215
Tax	(2)	(0)	(1)	(15)
Minority Interest	-	-	-	-
Net Profit	66	84	139	200
Sales Growth (%)	24.4	17.7	57.5	64.2
Net Profit Gr (%)	31.5	26.2	66.7	43.7
EBITDA Mgn (%)	71.1	73.7	85.4	75.8
Opg Mgn (%)	67.4	71.2	75.2	69.2
Tax Rate (%)	3.3	0.4	0.5	7.0

Balance Sheet (HK\$m)

FY Sep	2005A	2006A	2007A	2008F
Fixed Assets	23	30	23	30
Other LT Assets	90	158	282	370
Cash/ST Investments	157	190	228	95
Other Current Assets	196	321	555	819
Total Assets	466	699	1,089	1,313
ST Debt	55	109	93	93
Other Current Liab	25	51	94	148
LT Debt	6	6	4	3
Other LT Liab	-	-	-	-
Minority Interests	-	-	-	-
Shareholders' Equity	380	533	897	1,068
Total Capital	466	699	1,089	1,313
Share Capital (m)	470	510	582	582
Net Cash/(Debt)	96	75	131	(2)
Working Capital	274	351	596	672
Net Gearing (%)	cash	cash	cash	0.2

Cash Flow Statement (HK\$m)

FY Sep	2005A	2006A	2007E	2008F
Profit before tax	68	84	140	215
Depr/Amort	5	7	24	27
Taxation	(1)	(2)	(2)	(2)
Chg in Wkg Cap	(146)	(146)	(190)	(212)
Othr Non-Cash	1	(0)	(11)	5
Operational CF	(72)	(56)	(39)	33
Capex	(4)	(13)	(14)	(15)
Assoc, MI, Invsmt	(9)	(18)	(96)	(72)
Investment CF	(13)	(31)	(110)	(86)
Net Chg in Debt	18	48	(32)	(0)
New Capital	128	86	232	-
Dividend	(18)	(12)	(31)	(40)
Other financing CF	(11)	(7)	18	(40)
Financing CF	117	115	187	(81)
Chg in Cash	32	28	56	(133)
Chg in Net Cash	14	(21)	56	(133)

Segmental Breakdown (HK\$m)

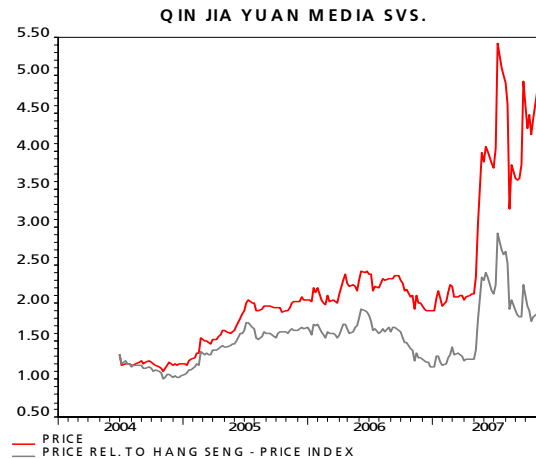
FY Sep	2005A	2006A	2007A	2008F
TV programme related income	56	74	85	120
Marketing related income	17	36	83	173
Public relations service income	34	15	30	31
Total sales	106	125	197	323

Valuation Graph: PE (x)



Source: Company, Datastream, DBS Vickers

Price Relative to Index



DBSV recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (0-15% total return over the next 12 months for small caps, 0-10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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