

Hong Kong / China Company Focus

QJY Media

Bloomberg: 2366 HK | Reuters: 2366.HK

DBS Group Research . Equity

20 May 2008

BUY HK\$5.03 HSI: 25,742

Price Target : 12-month HK\$7.79 (Prev HK\$ 6.75)

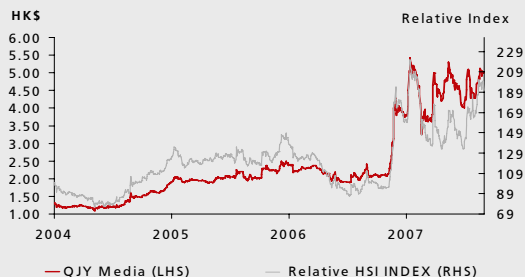
Reason for Report : Interim results

Potential Catalyst: Accelerated expansion to replicate its success of TV drama production in Fujian to other parts of China. New channel management business also boosts growth prospects.

Analyst

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Price Relative



Forecasts and Valuation

FY Sep (HK\$m)	2007A	2008F	2009F	2010F
Turnover	197	300	472	578
EBITDA	168	256	362	443
Pretax Profit	140	224	319	396
Net Profit	139	213	295	356
EPS (HK\$)	0.26	0.35	0.48	0.58
EPS Gth (%)	51.9	33.9	36.4	20.8
PE (x)	19.2	14.4	10.5	8.7
P/Cash Flow (x)	(88.7)	162.7	68.5	12.5
EV/EBITDA (x)	16.6	11.5	8.4	6.7
DPS (HK\$)	0.05	0.08	0.11	0.13
Div Yield (%)	1.1	1.5	2.1	2.5
Net Gearing (%)	cash	cash	cash	cash
ROE (%)	19.5	20.1	21.9	22.0
Book Value (HK\$)	1.5	2.0	2.4	2.9
P/Book Value (x)	3.3	2.5	2.1	1.8
Earnings Rev (%)		9	7	Nil
Consensus EPS (HK\$)		0.31	0.44	0.54

Sector: Media

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

Earnings beat expectations

Story: 1HFY08 revenue grew 43% y-o-y to HK\$134m, while net profit grew 74% to HK\$109m. The strong earnings were fuelled by sound growth in operations and better-than-expected forex gain of HK\$39m (1H FY07: HK\$7m). An interim HK\$0.036 scrip DPS (with cash option) was declared at flat 20% payout.

Point: The group produced 186 hours of TV dramas in 1HFY08, and is on track to complete a total of 360 hours for full year FY08 to capture over 7% share of China's primetime TV drama market. Meanwhile, QJY Media has already rolled-out its channel management business for four TV channels, including Drama Channel (Hubei), Entertainment Channel (Chongqing), News Channel (Shanxi) and Red Classic Channel (Jiangxi). It will launch at least two more TV channels in 2HFY08, and capture 1.6% share of the total TV advertising expenditure in China. Additionally, the company will continue to pursue its goal of attaining over RMB10bn advertising capacity (or 2.3% market share) by 2009 through acquisitions.

Relevance: In view of QJY Media's stronger-than-expected interim earnings, attractive business expansion, and continued benefits of the RMB appreciation, we upgraded our earnings by 9% to HK\$213m for FY08F, 7% to HK\$295m for FY09F, and 3% to HK\$356m for FY10F. Accordingly, we raised our target price to HK\$7.79 (from HK\$6.75), based on 12-month rolling 18x PE. Trading at 14x prospective PE currently, which is below industry peers' average of over 20x and 35% discount to our new target price, we reiterate our BUY rating for QJY Media.

At A Glance

Issued Capital (m shrs)	621
Mkt Cap (HK\$m/US\$m)	3,123 / 400
Major Shareholders (%)	
Leung Anita Fung Yee Maria	30.69
Aegis Group	15.90
Shun Tak Holdings	5.05
Free Float (%)	48.36
Avg Daily Volume (m shrs)	1.6

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FY08 Interim Results Summary

YE Sep (HK\$m)	1H FY07A	1H FY08A	Chg (% y-o-y)	2H FY07A	2H FY08F	Chg (% y-o-y)
TV programme related income	37.9	45.0	18.8%	46.9	53.3	13.8%
Marketing related income	38.2	68.3	79.1%	44.5	99.3	123.1%
Public relations service income	17.7	20.7	17.0%	11.9	13.3	12.0%
Turnover	93.7	134.0	43.0%	103.2	165.9	60.7%
Cost of services	(19.9)	(34.5)	73.5%	(26.7)	(50.6)	89.9%
- Interest income	1.6	1.7	4.8%	2.7	3.7	36.8%
- Others	0.0	0.1	522.2%	0.1	0.0	-55.9%
Other revenue	1.6	1.7	7.7%	2.8	3.8	34.5%
- Net exchange gain	6.9	39.0	468.1%	13.3	20.1	51.3%
- Gain on disposal of a subsidiary		1.3	n.a.	-	-	n.a.
Other net income/(loss)	6.9	40.3	487.0%	13.3	20.1	51.3%
Administrative and other operating expenses	(15.2)	(24.2)	59.3%	(11.7)	(23.7)	102.6%
Profit from operations	67.1	117.4	74.9%	81.0	115.5	42.6%
Finance costs	(3.5)	(6.1)	73.3%	(4.5)	(2.3)	-47.5%
Profit before taxation	63.6	111.3	74.9%	76.5	113.1	47.9%
Income tax	(0.7)	(1.9)	185.8%	(0.0)	(9.3)	25824.8%
Attributable profits	62.9	109.4	73.8%	76.5	103.8	35.7%
	1H FY07A	1H FY08A	Chg (ppt y-o-y)	2H FY07A	2H FY08F	Chg (ppt y-o-y)
Gross margin	78.8%	74.2%	-4.5%	74.2%	69.5%	-4.7%
Operating margin	71.6%	87.6%	16.0%	78.4%	69.6%	-8.8%
Net margin	67.2%	81.6%	14.5%	74.1%	62.6%	-11.5%

Source: Company, DBS Vickers

Income Statement (HK\$m)

FY Sep	2007A	2008F	2009F	2010F
Turnover	197	300	472	578
EBITDA	168	256	362	443
Depr/Amort	(24)	(29)	(34)	(37)
Opg Profit	144	227	328	406
Associates Inc	-	-	-	-
Interest (Exp)/Inc	(4)	(3)	(9)	(10)
Exceptionals	-	-	-	-
Pre-Tax Profit	140	224	319	396
Tax	(1)	(11)	(24)	(40)
Minority Interest	-	-	-	-
Net Profit	139	213	295	356
Sales Growth (%)	57.5	52.3	57.3	22.6
Net Profit Gr (%)	66.7	52.9	38.4	20.8
EBITDA Mgn (%)	85.4	85.4	76.7	76.7
Opg Mgn (%)	75.2	77.6	70.9	71.7
Tax Rate (%)	0.5	5.0	7.5	10.0

Balance Sheet (HK\$m)

FY Sep	2007A	2008F	2009F	2010F
Fixed Assets	23	20	16	12
Other LT Assets	282	403	468	544
Cash/ST Investments	228	258	236	340
Other Current Assets	555	782	1,147	1,345
Total Assets	1,089	1,462	1,866	2,241
ST Debt	93	93	178	213
Other Current Liab	94	138	214	261
LT Debt	4	3	3	3
Other LT Liab	-	-	-	-
Minority Interests	-	-	-	-
Shareholders' Equity	897	1,228	1,471	1,763
Total Capital	1,089	1,462	1,866	2,241
Share Capital (m)	582	617	617	617
Net Cash/(Debt)	131	161	55	124
Working Capital	596	808	991	1,210
Net Gearing (%)	cash	cash	cash	cash

Cash Flow Statement (HK\$m)

FY Sep	2007A	2008F	2009F	2010F
Profit before tax	140	224	319	396
Depr/Amort	24	29	34	37
Taxation	(0)	(11)	(24)	(40)
Chg in Wkg Cap	(196)	(186)	(290)	(152)
Othr Non-Cash	(1)	(37)	6	7
Operational CF	(33)	19	45	249
Capex	(4)	(4)	(4)	(4)
Assoc, MI, Invsmt	(130)	(72)	(42)	(50)
Investment CF	(134)	(76)	(46)	(55)
Net Chg in Debt	(30)	(0)	84	35
New Capital	241	154	-	-
Dividend	(7)	(47)	(65)	(78)
Other financing CF	(15)	(21)	(40)	(47)
Financing CF	189	86	(21)	(90)
Chg in Cash	22	29	(22)	104
Chg in Net Cash	56	29	(106)	69

Segmental Breakdown (HK\$m)

FY Sep	2007A	2008F	2009F	2010F
TV programme related income	85	98	126	164
Marketing related income	83	168	308	374
Public relations service income	30	34	37	41
Total sales	197	300	472	578

Source: Company, DBS Vickers

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DBSV recommendations are based on 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

Share price appreciation + dividends

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