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### Hong Kong Media

Reuters 2366.HK  
Bloomberg 2366 HK

**Priced on 21 January 2008**  
HK HSI @ 23,818.9

**12M hi/lo** HK\$5.59/1.94

**12M price target** HK\$6.65  
**±% potential** +51%  
**Target set on** 11 Dec 07

**Shares in issue** 617.4m  
**Free float (est.)** 54.9%

**Market cap** US\$347m

**3M average daily volume**  
HK\$16.7m (US\$2.1m)

#### Major shareholders

Anita Leung / Philip Wong 29.3%  
Aegis plc 15.8%

#### Stock performance (%)

	1M	3M	12M
Absolute	8.9	4.0	103.2
Relative	26.3	28.7	73.5
Abs (US\$)	8.8	3.2	103.2



Source: Bloomberg

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## More channels, more ads

HK based media company, QJY Media, is well positioned to benefit from China's growing TV advertising industry – as drama production is exchanged for ad slots. The company has acquired exclusive ad rights for 6 provincial TV channels; and has just widened its coverage with a 51% stake in the ad rights to Southern TV's satellite channel. Trading at only 10.3x forward year earnings vs an EPS Cagr of 28%, directors are recent buyers - 1.61m shares at HK\$4.00-5.11 in the past month.

#### More channels

QJY has acquired 51% of the exclusive advertising agency rights of the Satellite Channel of Southern TV Station (Guangdong). Not only is reception particularly strong in Southern China, it also reaches HK, Macau, Asia and the Americas. In the past 3 months, QJY Media also acquired exclusive ad rights for the City Channel of Hebei TV and the News Channel of Shanxi TV Station (which will be re-branded into an "Economic and Information" channel. The company raised HK\$154m (35m shares at HK\$4.55/share) on 7 December to finance these acquisitions.

#### More advertising

With more channels, QJY's ad capacity (based on rate cards) has more than doubled to Rmb5bn (6 ground channels + a 51% stake in a satellite channel) from Rmb2.3bn. Management's target is to reach ad capacity of >Rmb9bn within the next 12 months, via acquisitions.

#### Global brands ramping up marketing budgets

Not only is it a more defensive sector amid concerns of a US/global slowdown, the Chinese media sector is also a true beneficiary of the 2008 Beijing Olympics, which is shaping up to be the biggest guerrilla marketing event of all time, with clear potentially vast flow-on for the Chinese advertising industry. Companies such as Lenovo are ramping up marketing expenses in order to build global branding. Note that CCTV's 2008 auction hit a record Rmb8.02bn, up 18%YoY from last year.

#### Insiders buying

QJY Media's share price has been holding up relatively well, up 9% in the past month and 26% relative to the Hang Seng Index. The stock is now trading on 14.6x FY08CL and 10.3x FY09CL earnings – attractive relative to growth prospects and peer group valuations. Our HK\$6.65 target is equivalent to 15x CY09CL earnings. Furthermore, CEO Dr Anita Leung has acquired 1.6m shares on the open market at HK\$4.00-5.11/share in the past month.

#### Financials

Year to 30 Sep	06A	07A	08CL	09CL	10CL
Revenue (HK\$m)	125	197	307	485	603
Net profit (HK\$m)	84	139	184	264	314
EPS (HK¢)	17.2	26.1	30.0	42.8	50.9
CL/consensus(2)(EPS%)	-	-	94	100	100
EPS (% YoY)	6.5	51.4	14.9	42.6	18.9
PEX (@HK\$4.39)	25.5	16.8	14.6	10.3	8.6
EV/Op Ebitda (x)	23.5	14.4	10.8	7.6	6.2
Dividend yield (%)	0.8	1.2	1.4	2.0	2.3
ROAE (%)	18.3	19.4	18.6	22.2	21.5
Price/book (x)	4.2	2.9	2.5	2.1	1.7
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: CLSA Asia-Pacific Markets

Not only is reception particularly strong in Southern China, it also reaches HK, Macau, Asia and the Americas

Focus is gradually moving away from production to advertising

Note some concern on reimbursement receivables (up 129%) – much higher than the 57% increase in revenues in FYSep07. This should start to trend downwards as the revenue mix shifts from production to more advertising.

### Details of 51% ad rights of Southern TV's Satellite channel

- ❑ QJY has acquired a 51% stake to the exclusive ad agency rights of Southern TV's satellite channel – which broadcasts news and popular entertainment from the Southern regions of China in Cantonese.
- ❑ The Satellite Channel has a wide coverage. Not only is reception particularly strong in Southern China, it also reaches HK, Macau, Asia and the Americas.
- ❑ In Hong Kong, the channel has an audience of ~630,000 through PCCW and HK Broadband Network.
- ❑ The ad rights are for 3 years, with a renewal option for another 3 years.
- ❑ According to the agreement, QJY has the first right to buy the remaining 49% stake in the coming two years.

### Other points to note

- ❑ Revenue contribution is gradually moving more towards advertising, and less so on production. Over 43% of total revenues came from programming in 2007. This percentage will eventually move closer to 25-30%.
- ❑ Drama production volume rose 33% to 287 episodes in 2007; but only half was self produced. Management has cut its guidance for FYSep08 from 450 episodes to 360 episodes and FYSep09 from 800 episodes to 500 episodes.
- ❑ Ad revenues rose 130% to HK\$83m in FYSep07. Of this, the new ad platform in Hubei accounted for HK\$20m.
- ❑ QJY's advertising platform will now consist of exclusive ad rights to seven TV channels operating in Mainland China – with gross ad capacity of over Rmb5bn (or approx 1.4% of the China market).
- ❑ Bernard Yiu, who was appointed CEO of QJY (China) Advertising, says that the company has already achieved 40% of this year's ad revenue target.
- ❑ Aegis have seconded 2 staff to help with media planning. The advertising team consists of 6 main leaders.
- ❑ A key investor concern is QJY's negative working capital position and rising receivables - specifically fund advances to production houses on behalf of advertising agencies. These reimbursement receivables rose 129% in FYSep07, outpacing the 57% rise in revenues during the corresponding period. This should start to trend downwards as the revenue mix shifts from production to more advertising.

**QJY Media – More channels, more ads**

QJY Media is trading on 14.6x FY08CL and 10.3x FY09CL earnings – at the higher end of its historical average, but nevertheless attractive relative to growth prospects and peer group valuations

CEO Dr Anita Leung has recently acquired 1.6m shares on the open market at HK\$4.00-5.11/share in the past month

Figure 1

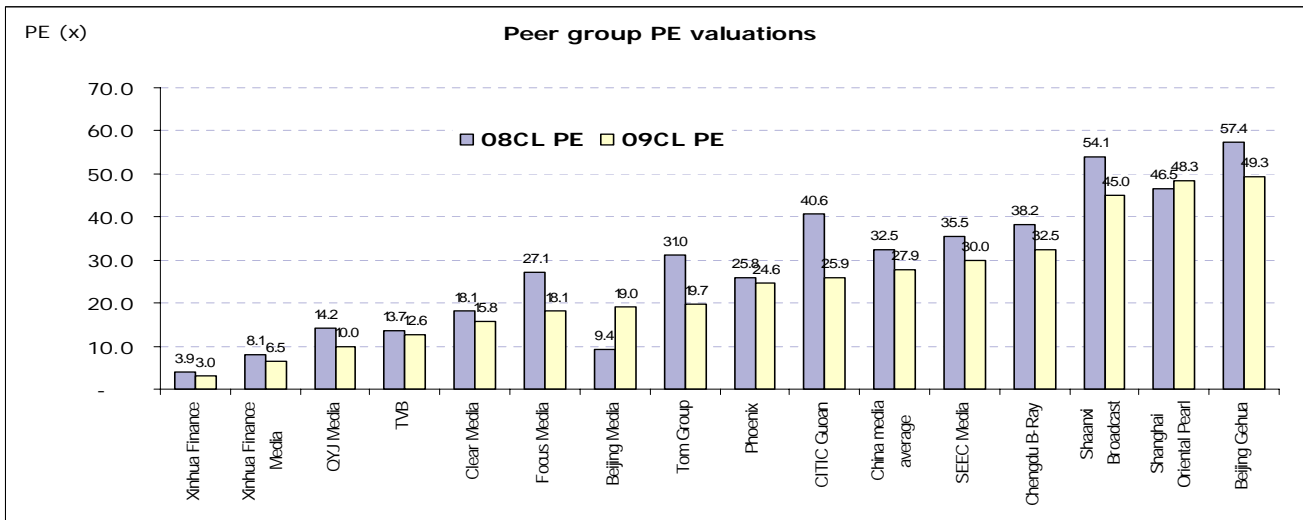
**QJY Media – 12 month forward PE**



Source: CLSA Asia-Pacific Markets

Figure 2

**China media valuations: Peer group PE valuations**



Source: CLSA Asia-Pacific Markets, IBES

Our HK\$6.65 target is equivalent to 15x CY09CL earnings

**Recommendation history - Qin Jia Yuan Media Services 2366 HK**

Date	Rec level	Closing price	Target
11 December 2007	BUY	4.63	6.65
07 November 2007	BUY	4.90	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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