

QJY Media

Bloomberg: 2366 HK | Reuters: 2366.HK

DBS Group Research . Equity

1 February 2008

BUY HK\$4.36 HSI : 24,124

Price Target : 12-month HK\$6.75 (Prev HK\$ 6.23)

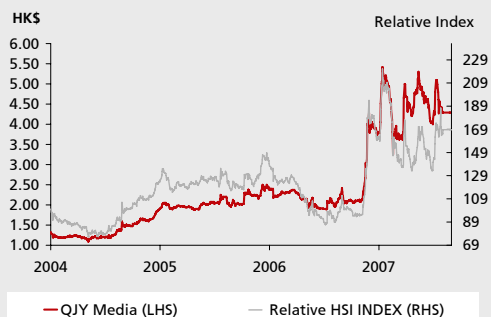
Reason for Report : Company update

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	394	604	773
EBITDA	168	240	349	457
Pretax Profit	140	210	312	416
Net Profit	139	196	275	345
EPS (HK\$)	0.26	0.32	0.44	0.56
EPS Gth (%)	51.9	23.0	38.3	25.8
PE (x)	16.7	13.6	9.8	7.8
P/Cash Flow (x)	(76.9)	(35.4)	121.3	14.9
EV/EBITDA (x)	14.3	10.9	7.8	5.9
DPS (HK\$)	0.05	0.06	0.09	0.11
Div Yield (%)	1.2	1.5	2.0	2.6
Net Gearing (%)	cash	cash	3.3	1.6
ROE (%)	19.5	18.5	20.6	21.6
Book Value (HK\$)	1.5	2.0	2.4	2.8
P/Book Value (x)	2.8	2.2	1.9	1.5
Consensus EPS (HK)		0.32	0.41	0.51

Sector : Media

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

New growth drivers

Story: Following successful turn out of its new channel management business in China, QJY Media targets to further expand its platform, from the current seven channels to as many as 29 by 2010. The plan could potentially scale up its TV advertising capacity to over RMB30bn, turning QJY Media into the largest TV media next to CCTV in three years. Additionally, along with expectations of a healthy 15% revenue CAGR (FY07-10) in its TV drama production & distribution division, QJY is also well-poised to become one of the leading Chinese TV drama providers worldwide.

Point: QJY Media was able to clinch the exclusive advertising agency rights of a satellite channel from Southern TV Station (Guangdong) last month. The deal effectively lifted advertising capacity of its channel management platform to a total of RMB5.9bn, with 357m viewers. Such acquisition has prompted our earnings forecast to include a total of seven channels in its channel management division. Coupled with TV drama production & distribution, we estimate net profit to reach HK\$195m in FY08, HK\$275m in FY09, and HK\$345m in FY10. Should the company achieve its goal of over RMB30bn advertising capacity by 2010, QJY Media could possibly double our expected profits and achieve over HK\$700m earnings by FY10.

Relevance: QJY Media is among the few Hong Kong-listed companies that tap directly into the robust TV advertising market of China. Dr. Anita Leung (CEO) has also bought a total of 322,000 shares from the market in January 2008, at an average price of HK\$4.95. Riding on a positive outlook, yet trading at just 13.6x prospective PE, 0.6x PEG, and 35% discount to our target price of HK\$6.75, we maintain **BUY**.

At A Glance

Issued Capital (m shrs)	618
Mkt Cap (HK\$m/US\$m)	2,694 / 345
Major Shareholders (%)	
Leung Anita Fung Yee Maria	30.44
Aegis Group	15.90
Free Float (%)	53.66
Avg Daily Volume (m shrs)	3.5

Company background

Integrated media service provider. QJY Media leverages on its one-stop media & marketing business model to capture multiple revenue streams in China. Through its successful strategic alliance with local media partners and a strong library of script content, the company provides a full range of integrated services, ranging from TV drama concept development and production to distribution and media advertising arrangements.

QJY Media's capacity to provide quality TV dramas for prime-time broadcasting helps to lock-in exchange rights for certain commercial airtime, thus effectively tapping the Chinese advertising market along with its local advertising agency partners. The company's latest success in its new channel management business also helps to strengthen its growth prospects.

Following a series of acquisitions of exclusive advertising agency rights across seven TV channels, QJY Media has already become one of the top 15 TV advertising platforms in China (in terms of gross advertising expenditure). By anticipating more acquisitions in its channel management division, the company targets to be among the top 10 by the end of 2008, and ultimately the largest TV media next to CCTV in three years.

Strong management team & strategic shareholder. Founded in 1995 by famous novelist Dr. Anita Leung and her husband Dr. Wong Yu Hong Philip (a deputy of the National People's Congress of China), QJY benefits from synergies with its second largest shareholder, Aegis Media. The latter is one of the world's leading media groups, providing market research facilities, rating projections, client referrals and other media-related advices to the company.

Towards mid-2007, QJY Media appointed Mr. Bernard Yiu as an executive director of the company to oversee its advertising platform. Yiu possesses over 30 years of media and advertising experience in Greater China. He became the youngest Media Director in the early 1980s with Ling-McCann-Erickson, (then No.1 advertising agency in Hong Kong), and achieved record sales of airtime during a time of two years when he worked with Asia Television as Marketing Director.

Solid track record & copious embedded synergies. QJY Media has so far sustained over 40% CAGR in both sales turnover and earnings during FY01-FY07. The company has allied with eight more provincial TV stations since FY06 and

extends its success in Fujian to other areas of China, lifting its TV drama program provision from 126 hours in FY05 to 216 hours in FY06, and 287 hours in FY07.

Looking ahead, QJY Media targets to lift its drama production to 360 hours in FY08, 500 hours in FY09, and 700 hours in FY10. A further extension of its business model could allow the company to ultimately provide 1,000 hours of TV drama programs, raising its market share in the segment from the existing 3-4% to over 15%.

Through collaboration with nine major Mainland TV stations in the production of TV drama series, QJY Media's content library has continued to be enriched, currently carrying about 2,000 hours of drama episodes. By allowing the TV channels that are under its management to broadcast these dramas selectively, the company's growing content base should favourably support its new channel management business.

Business outlook

Robust advertising market in China. Gross advertising expenditure has been growing at over 20% CAGR during 2000-2007 to reach c.RMB480bn (before discounts) in China. TV advertising still captures the bulk and takes up about 75% of the pie, while prime-time advertising alone represented over 30% of the total, or more than RMB100bn. By expecting the segment to expand at 15-20% CAGR in the medium-term, especially in the lead to 2008 Beijing Olympics, we see great potentials for QJY Media to tap growth.

More favourable policies. Since November 2006, the Chinese Government has effectively adopted new policies under the Closer Economic Partnership Agreement (CEPA) to treat TV programs co-produced by Hong Kong companies and mainland Chinese companies as domestically-produced dramas, which will be entitled to be broadcast during prime times in China. Moreover, the annual quota of 40 jointly-produced episodes has been removed at the same time.

All these have facilitated QJY Media's accelerated expansion to join force with nine TV Stations in China and penetrate further into the robust Chinese advertising market.

Content is key. QJY Media possesses a strong library of script content by adapting famous novels of co-founder, Dr. Anita Leung, and Wesley science fictions of Ni Kuang. Such popular scripts could provide a good foundation for

Company Focus

producing quality TV dramas in exchange for more prime-time TV advertising slots.

Furthermore, as the company continues to build up its library of Chinese dramas and branding in drama production, further synergies on operational efficiency could come through as demand from other Chinese provinces and overseas markets soar.

Multiplier effect in TV drama production & distribution.

Following earlier accomplishment in its alliance with Fujian TV Station, QJY Media has extended its business model since FY06, forming allies with eight more provincial TV stations in Beijing, Dalian, Guangdong, Harbin, Hubei, Jiangsu, Shanghai and Chongqing to instantly speed growth. The company's further alliance with the leading Asian media group STAR also helps to broaden its overseas distribution platform, which in turn strengthens its brand further to capture more potential licensing income ahead.

New growth drivers from channel management.

QJY Media had started off acquiring exclusive advertising agency rights of Chinese TV channels last year. In January 2007, the company announced that it would begin to manage advertising slots of the Hubei TV Drama Channel. Thereafter, riding on positive initial responses from this new business and its well-founded relationship with strategic partners in China, QJY Media was able to swiftly lock-in the exclusive advertising agency rights of six more TV channels, including Chongqing TV Entertainment Channel, Xiamen TV Life Channel, Jiangxi TV Red Classic Channel, Hebei TV City Channel, Shanxi TV News Channel, as well as the latest acquisition of Southern TV (Guangdong) Satellite Channel.

Overall, we expect this new division to become QJY Media's growth driver in the coming years, contributing RMB69m earnings in FY08, RMB127m earnings in FY09, and RMB167m earnings in FY10 to the company. Coupled with healthy performance in its TV drama production & distribution division, we forecast QJY Media to achieve 35% earnings CAGR for FY07-10.

Earnings breakdown

YE Sep (HK\$m)	FY06	FY07	FY08	FY09	FY10
Revenue breakdown:					
Production & distribution	125	165	180	211	254
Channel Management	-	32	214	393	519
Total	125	197	394	604	773
Net profit breakdown:					
Production & distribution	84	131	126	148	178
Channel Management	-	9	69	127	167
Total	84	139	195	275	345
Net profit margin (%):					
Production & distribution	67%	79%	70%	70%	70%
Channel Management	0%	28%	32%	32%	32%
Total	67%	71%	49%	45%	45%
Revenue breakdown (%):					
Production & distribution	100%	84%	46%	35%	33%
Channel Management	0%	16%	54%	65%	67%
Total	100%	100%	100%	100%	100%
Net profit breakdown (%):					
Production & distribution	100%	94%	65%	54%	51%
Channel Management	0%	6%	35%	46%	49%
Total	100%	100%	100%	100%	100%

Source: Company, DBS Vickers

Over 70% earnings CAGR on full-fledged performance.

Looking ahead, QJY Media plans to strengthen its channel management platform further, targeting to expand the division from the current seven channels to 11 by the end of 2008, 17 by 2009, and 29 by 2010. The plan could potentially scale up its TV advertising capacity to over RMB30bn, turning QJY Media into the largest TV media, next to CCTV in three years.

Should the company achieve its goal, QJY Media could possibly achieve over HK\$700m earnings by FY10, translating into an outstanding 70%+ earnings CAGR for FY07-10.

Financials and valuation

Liquidity to improve in time. Since its IPO in 2004, QJY Media has completed four top-up placements to finance its operations, placing:

- (1) 70m shares at HK\$1.83 each in July 2005;
- (2) 47m shares at HK\$2.28 each in April 2006;
- (3) 66m shares at HK\$3.65 each in June 2007;
- (4) 35m shares at HK\$4.55 each in December 2007.

The company had HK\$131m net cash as of September 2007.

Given QJY Media's business plans for its new channel management division and the company's long settlement cycle for receivables, it may require more funding in the near future, as it accelerates expansion in China. However, we believe that as its drama library grows and scale of operations expands, QJY Media will gradually see a proportionately lower initial funding requirement for its new projects in the future.

Valuation still undemanding. QJY Media is trading at 13.6x FY08 PE and less than 0.6x PEG. The counter still looks immensely undervalued when compared to current PE multiples across multi-media peers that operate in China. We believe its sound track record, new growth drivers and strengthened expansion possibilities could continue to prompt an upward re-rating potential.

We have revised up our valuation on QJY Media to HK\$6.75 per share, based on a 12-month rolling 18x PE (previously: HK\$6.23 on 18x FY08 PE), which is already the lowest-end of the PE range

across China media plays. This translates into 55% upside from the current price level. It is a **BUY**.

Risks & concerns

QJY Media's ability to provide initial funding for drama production is critical for future success, given that its full reimbursement of investments will only be achieved after 1.5 to 2 years.

The good news is that it has so far experienced zero default by predominantly dealing with international brand advertisers and major Chinese TV stations.

Additionally, channel management is a newer division and the company may take some time to fine tune the operation to maximise potential returns. Other risks include possible execution and regulatory risks.

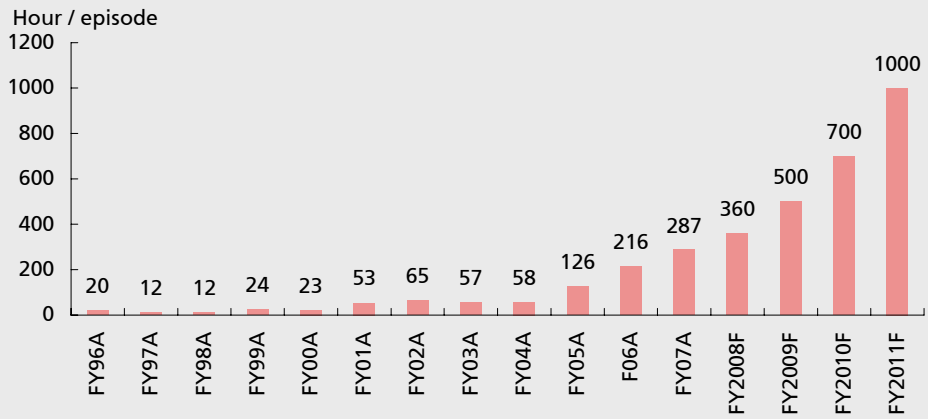
Media Peers

Company Name	Currency Code	Price Local\$	Mkt Cap US\$m	Fiscal Yr End	PE 07E x	PE 08F x	Yield 07E %	Yield 08F %	ROE 07E %	ROE 08F %	
Multi-media players with TV related operations in China											
Phoenix Satellite	8002 HK	HKD	1.34	851	Dec	25.8	21.3	1.5	1.5	21.5	22.3
Qin Jia Yuan Media*	2366 HK	HKD	4.36	345	Sep	16.7	13.6	1.2	1.5	19.5	19.5
TVB*	511 HK	HKD	41.2	2,314	Dec	14.1	13.0	4.4	4.8	24.0	23.7
Beijing Gehua	600037 CH	CNY	25.63	3,781	Dec	67.1	50.7	0.5	1.1	10.2	14.4
Hunan TV	000917 CH	CNY	24.46	1,153	Dec	77.7	49.9	n.a.	n.a.	n.a.	n.a.
Shaanxi Broadcast	600831 CH	CNY	26.9	780	Dec	76.2	35.0	n.a.	n.a.	n.a.	n.a.
Average						46.3	30.6				

Source: Bloomberg, *DBS Vickers

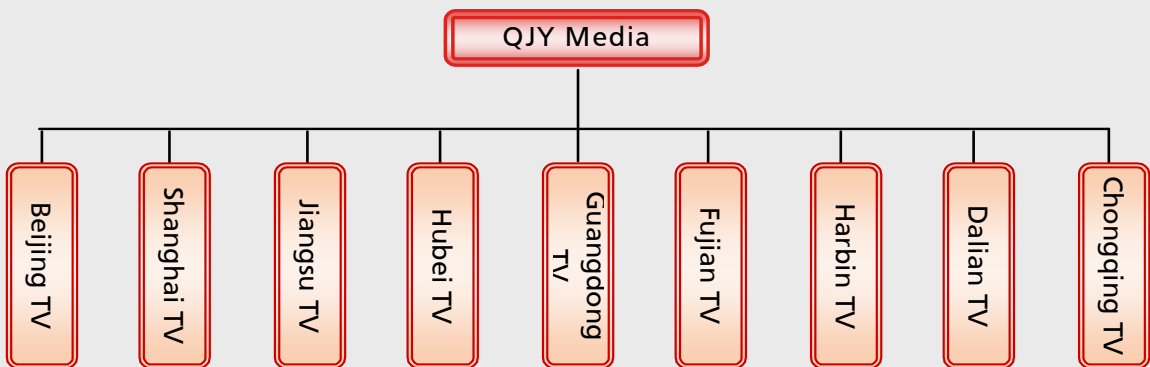
Company Focus

TV drama – production schedule



Source: Company

Strategic alliance with TV stations in China



Source: Company

Channel management division – exclusive advertising agency rights acquired

	TV Station	Channel	Broadcast (hr/day)	Commercial Airtime (min)	Year to start operation	Term	Viewer (m)	All Day Rate Card for 2008 (Rmb: m)	Prime Time Rate Card for 2008 (Rmb: m)
1)	Hubei	Drama	18	210	2/2007	3+1x3	56.50	853	341
2)	Chongqing	Entertainment	24	288	1/2008	5+1x5	13.80	969	388
3)	Xiamen	Life	19	222	4/2008	3+3x3	0.78	286	114
4)	Jiangxi	Red Classic	19	222	1/2008	3+2x3	40.55	488	195
5)	Hebei	City	20	234	4/2008	3+2x3	65.11	1,345	538
6)	Shanxi	News	20	234	7/2008	3+2x3	30.83	894	358
7)	Southern (Guangdong)	Satellite	19.5	228	7/2008	3+1x3	149.58	1,075	430
Total			139.5	1,638			357.15	5,910	2,364

Source: CTR Market Research Co. Ltd., respective TV stations, Company

Channel management division – QJY's advertising capacity targets

Dec		2006	2007	2008	2009	2010
China:	Total Ad Expenditure (RMB 'bn) - TV media	300	360	432	518.4	622.1
	- All media	400	480	576	691	829
QJY:	Target TV Capacity (RMB 'bn)	-	4.2	8.9	15.7	30.9
	Target No. of Channels	-	6	11	17	29
Chinese TV Stations Ranking Equivalence:						
	1) 上海 Shanghai		17.7	21.2	25.4	30.5
	2) 廣東 Guangdong		10.6	12.8	15.3	18.4
	3) 北京 Beijing		10.2	12.2	14.6	17.6
	4) 湖南 Hunan		10.1	12.1	14.5	17.4
	5) 重慶 Chongqing		8.8	10.5	12.6	15.1
	6) 浙江 Zhejiang		6.7	8.0	9.6	11.6
	7) 山東 Shangdong		5.7	6.8	8.2	9.8
	8) 江蘇 Jiangsu		5.4	6.5	7.8	9.4
	9) 天津 Tianjin		5.3	6.3	7.6	9.1
	10) 福建 Fujian		4.9	5.9	7.1	8.5
	11) 河北 Hebei		4.8	5.7	6.9	8.3
	12) 陝西 Shaanxi		4.8	5.7	6.9	8.3
	13) 河南 Henan		4.6	5.5	6.6	8.0
	14) 遼寧 Liaoning		4.5	5.4	6.5	7.8
	15) 四川 Sichuan		4.1	4.9	5.9	7.0

Source: CTR Market Research Co. Ltd., Company

Company Focus
Income Statement (HK\$m)

FY Sep	2007A	2008F	2009F	2010F
Turnover	197	394	604	773
EBITDA	168	240	349	457
Depr/Amort	(24)	(26)	(28)	(31)
Opg Profit	144	214	321	427
Associates Inc	-	-	-	-
Interest (Exp)/Inc	(4)	(3)	(9)	(10)
Exceptionals	-	-	-	-
Pre-Tax Profit	140	210	312	416
Tax	(1)	(15)	(37)	(71)
Minority Interest	-	-	-	-
Net Profit	139	196	275	345
Sales Growth (%)	57.5	100.0	53.5	27.9
Net Profit Gr (%)	66.7	40.4	40.3	25.8
EBITDA Mgn (%)	85.4	60.9	57.8	59.1
Opg Mgn (%)	75.2	55.6	54.2	56.2
Tax Rate (%)	0.5	7.0	12.0	17.0

Cash Flow Statement (HK\$m)

FY Sep	2007A	2008F	2009F	2010F
Profit before tax	140	210	312	416
Depr/Amort	24	26	28	31
Taxation	(0)	(15)	(37)	(71)
Chg in Wkg Cap	(196)	(303)	(292)	(207)
Othr Non-Cash	(1)	5	11	12
Operational CF	(33)	(76)	22	181
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)	(39)	(55)	(69)
Other financing CF	(15)	(25)	(16)	(19)
Financing CF	189	89	13	(53)
Chg in Cash	22	(63)	(11)	74
Chg in Net Cash	56	(63)	(113)	18

Company Profile

QJY Media is a one-stop media service provider founded in 1995 by the famous novelist, Anita Leung, and her husband, Wong Yu Hong Philip - a deputy of the National People's Congress of China.

The company successfully allied with major domestic TV stations in China to provide a full range of integrated media services, ranging from TV drama concept development & production to distribution & advertising arrangements.

Its capacity to provide quality TV dramas for prime-time broadcasting helps to lock in exchange rights for certain commercial airtime, thus effectively tapping the Chinese advertising market along with local partners. QJY Media's initial success in channel management also helps in strengthening its growth prospects ahead.

Source: Company, DBS Vickers

Balance Sheet (HK\$m)

FY Sep	2007A	2008F	2009F	2010F
Fixed Assets	23	20	16	12
Other LT Assets	282	368	427	498
Cash/ST Investments	228	166	137	190
Other Current Assets	555	940	1,324	1,604
Total Assets	1,089	1,494	1,904	2,304
ST Debt	93	93	178	213
Other Current Liab	94	179	271	346
LT Debt	4	3	3	3
Other LT Liab	-	-	-	-
Minority Interests	-	-	-	-
Shareholders' Equity	897	1,218	1,451	1,741
Total Capital	1,089	1,494	1,904	2,304
Share Capital (m)	582	617	617	617
Net Cash/(Debt)	131	69	(44)	(26)
Working Capital	596	834	1,012	1,235
Net Gearing (%)	cash	cash	3	2

Segmental Breakdown (HK\$m)

FY Sep	2007A	2008F	2009F	2010F
TV programme related income	85	91	114	148
Marketing related income	83	271	458	591
Public relations service income	30	31	33	34
Total sales	197	394	604	773

SWOT Analysis

- S** Strong library of script content coupled with a strong management team and renowned strategic shareholder – Aegis Media.
- W** Long settlement cycle for receivables given that its full reimbursement of investments will only be achieved after 1.5 to 2 years.
- O** Accelerated expansion to replicate success in one region to other eight regions in China. Coupled with positive development in its new channel management businesses, QJY Media will more fully capture robust growth in the Chinese advertising market as it leads up to the 2008 Beijing Olympics.
- T** Potential execution and regulatory risks. The channel management operation is also a fresh try-out which may take some time for fine tuning before maximising the potential returns.

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

Share price appreciation + dividends

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