

Hong Kong / China Flash Notes

DBS Group Research . Equity

6 November 2009

QJY Media (2366.HK)

Not Rated; HK\$1.74

12 month Price Target: n.a.

Analyst: Mavis Hui · +852 28638879
mavis_hui@hk.dbsvickers.com

A positive transition

QJY has recently signed an **exclusive** agreement with Beijing Xinhua Zhaoxun Culture Media Company Ltd. ("Xinhua Zhaoxun", 北京新華兆訊文化傳播有限公司) to underwrite their outdoor LED advertising business in China, with an initial term of 8 years.

At the moment, Xinhua Zhaoxun has 6 outdoor LEDs in major cities of China, broadcasting advertisements as well as news content provided by Xinhua News Agency. With Xinhua Zhaoxun's addition of more LEDs ahead, as well as synergies from QJY's existing operations, we believe this

new outdoor advertising division could generate a strong source of income for QJY, lifting its growth prospects, and reinforcing the company as a fully integrated media group in China.

We currently believe that management is targeting to generate over RMB100m revenue from this new outdoor advertising division for FY10. Coupled with contributions from existing operations, we expect QJY could achieve over HK\$600m revenue and over HK\$180m gross profit for FY10.

New targets for FY10F

Business divisions	Revenue (RMBm)	Gross Margin (%)	Gross Profit (RMBm)	Remarks
1) TV advertising (i.e. channel mgt.)	180	30-35%	54 to 63	QJY currently owns the exclusive advertising rights of 9 TV channels in China.
2) Production & distribution:-				
a) Production (non-script)	n.a.	20-25%	7 to 8	58% of newly produced TV programs in China must be non-script (e.g. situational drama). Among these, 30% must be produced by the private sector (e.g. QJY).
b) Production (grade A drama - sourced)	n.a.	50-65%	17 to 21	42% of newly produced TV programs in China will be drama.
c) Distribution (direct sale)	n.a.	25-30%	8 to 10	
d) Distribution (syndication)	n.a.	40-50%	13 to 17	Every hourly episode barbers for c.2 minutes of commercial airtime.
Sub-total:	132	34-42%	45 to 56	
3) Outdoor LED advertising	100	15-20%	15 to 20	Xinhua Zhaoxun currently has 6 outdoor LEDs in China (2 in Beijing, 2 in Shanghai, 1 in Chengdu and 1 in Guangzhou).
4) Entertainment & artist management	55	25-30%	14 to 17	Has 65% stake in a JV with IMPACT (the largest concert producer in Asia).
5) Film library	45	60-65%	27 to 29	QJY owns 5,000 hours of film library (note: 82% of all TV programs in China are repeated programs.)
6) Marketing	23	25-30%	6 to 7	Acquired 90% of Hong Kong's top marketing firm - Triangle.
7) TV shopping	4	10%	0.4 to 0.4	QJY currently partners with GS Home Shopping (the world's 3rd largest TV shopping player) to test the market.
Total	539 (eqv. HK\$614m)	29.7%-35.6%	160 to 192 (eqv. HK\$182-219m)	

Source: DBS Vickers (Exchange rate: RMB1=HK\$1.14)

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Growth potentials & catalysts

- a) **Strong partner in outdoor LED advertising.** According to QJY, Xinhua Zhaoxun is a joint venture between Xinhua News Agency's appointed party as well as several minority shareholders, including Goldman Sachs. With sound support from Xinhua News Agency, the joint venture's platform is among <0.1% of all LEDs across c.3,000 cities of China that can broadcast live news content.

Building on Xinhua Zhaoxun's existing platform with 6 outdoor LEDs in 4 major cities of China (i.e. Beijing, Shanghai, Chengdu and Guangzhou), the latest expansion targets involve prudently achieving:

A total of 9 LEDs in 6 cities by 2010;

A total of 19 LEDs in 12 cities by 2011;

And >38 LEDs in 25 cities by 2012.

QJY will capture all the advertising income from the operations, and in return paying an underwriting fee to Xinhua Zhaoxun. Based on estimated advertising revenue of RMB63m from the existing LEDs in 2009, QJY targets to generate at least RMB100m revenue for FY10 from this new division.

As market environment gradually normalizes while the LED platform continues to expand in scale, it is likely that on-going contribution from this new outdoor advertising division could grow progressively. On this basis, QJY should likely triple this division's revenue by 2012 without much difficulty.

- b) **Synergies from existing operations.** QJY has a professional team with more than 10 years of media experience in China. Through its TV content production and channel management businesses, the company has already established good ties with various 4A-advertising agents, local brokers, and renowned brand owners including *Coca-Cola*, *Johnson & Johnson* and *P&G*. Its well-embedded expertise in advertising and media-related operations should provide a strong basis for the company to tap into the Chinese outdoor advertising industry.

Apart from news content provided by Xinhua News Agency, QJY's sizeable film library (>5,000 hours of episodes) and on-going production of non-script content (including concerts organized by its joint venture with IMPACT, Asia's largest concert producer) could all serve as additional content sources to support its outdoor advertising business whenever applicable.

- c) **Expansion of channel management division.** QJY has maintained strong double-digit revenue CAGR for its channel management division since the business rollout in 2007. Riding on a solid platform with 9 TV channels, the company targets to expand the scale to 16 TV channels by 2010 through acquisitions of exclusive

advertising rights. Such plans should further enhance its overall growth prospects.

- d) **Other growth drivers.** QJY has utilised its drama library to launch own branded 2-hour program *Dandelion Theatre* (蒲公英劇場) across 50 or more TV channels in China. This has lifted the commercial airtime available for QJY to capture more ad revenue. Additionally, the company's on-going production of low budget drama & quality non-script programs that usually involve a short repayment cycle should also lighten its business outlook.

- e) **Exploring TV shopping opportunities.** QJY has recently co-operated with GS Home Shopping, the world's third largest home shopping player, to introduce TV shopping business into the company's channel management platform. GS Home Shopping will be responsible for advertisement production, merchandise sourcing and logistics arrangements, while QJY will provide commercial airtime to broadcast the respective advertisements and receive a 10% commission from the TV shopping business.

The home shopping market in China is still very premature at this stage. In 2008, total sales generated from the home shopping industry reached RMB20bn, representing merely 0.2% share of total retail sales in China. Comparing to home shopping industries in both Korea and the US, which shared 8% and 10% of their retail markets respectively, we do see an abundant room for the business to develop in China.

QJY's TV partner is currently applying for a national TV home shopping license. Upon successful application, the company could likely possess another new driver for growth.

Peers valuation

Looking across some listed media plays that operate in China, most of their trading multiples have currently surpassed 20x prospective PE as investors expect a gradual economic recovery ahead. We continue to believe that the Chinese advertising market should see a faster recovery versus other regions worldwide. On this basis, QJY could likely see a gradual re-rating as its operations continue to recover under a more normalised operating environment. The company's new outdoor advertising business should also strengthen its growth prospects, transforming QJY into an integrated, cross-media play in China.

Risks & concerns

QJY's capabilities on funding further acquisition of TV advertising rights to expand its channel management division is critical for future growth prospects. Other factors include possible execution and regulatory risks, especially given the company's latest extension into outdoor LED advertising operations, as well as other potential expansion plans such as operating TV shopping businesses in China.

Peer comparison

	Currency	Price	Mkt Cap	PE			Yield			P/Bk			
				08A	09F	10F	08A	09F	10F	08A	09F	10F	
a) TV Media													
Beijing Gehua	600037.CH	CNY	14.32	Dec	46.2	48.2	42.2	1.0	0.6	0.7	3.5	3.4	3.2
Hunan TV	000917.CH	CNY	18.86	Dec	377.2	89.0	70.4	0.1	0.2	0.3	4.5	3.2	3.1
Phoenix Satellite	2008.HK	HKD	1.8	Dec	31.1	31.0	25.0	1.1	0.9	1.0	5.5	5.0	4.4
QJY Media	2366.HK	HKD	1.74	Sep	5.4	n.a.	n.a.	1.9	n.a.	n.a.	1.5	n.a.	n.a.
Shaanxi Broadcast	600831.CH	CNY	8.56	Dec	85.6	40.0	30.2	0.4	0.1	0.6	3.1	3.0	2.8
b) Out-of-home Media													
Operators in China													
AirMedia	AMCN.US	USD	8.36	562	18.6	n.a.	28.0	0.0	0.0	0.0	1.9	1.9	1.7
Clear Media	100.HK	HKD	3.61	244	11.4	13.9	8.7	0.0	0.1	0.4	0.8	0.7	0.7
Focus Media	FMCN.US	USD	13.35	1,729	n.a.	28.2	18.4	0.0	0.0	0.0	1.5	1.1	1.0
I-Level Media Group	ILVL.US	USD	0.015	1	n.a.	n.a.	n.a.	0.0	n.a.	n.a.	n.a.	n.a.	n.a.
VisionChina Media	VISN.US	USD	8.9	638	13.3	20.7	15.1	0.0	0.0	n.a.	2.4	2.3	2.0
c) Print Media													
Beijing Media	1000.HK	HKD	4.5	Dec	19.8	90.0	34.6	5.0	0.4	0.9	0.6	0.7	0.7
Chengdu B-Ray	600880.CH	CNY	22.83	Dec	43.9	32.0	25.4	0.7	0.8	0.9	7.0	6.9	5.6
d) New Media													
Baidu.com	BIDU.US	USD	396.23	Dec	88.3	62.2	43.4	0.0	0.0	0.0	21.8	20.4	13.9
NetEase.com	NTES.US	USD	39.62	Dec	21.1	18.4	13.7	0.0	0.0	0.0	5.4	4.6	3.4
SINA	SINA.US	USD	40.4	Dec	28.1	36.0	26.9	0.0	0.0	0.0	3.6	3.0	2.7
Sohu.com	SOHU.US	USD	55.16	Dec	13.3	14.0	12.9	0.0	0.0	0.0	3.5	3.4	2.6
Tencent	700.HK	HKD	138.6	Dec	78.7	44.7	32.3	0.2	0.4	0.5	25.1	19.5	12.8
Average					58.8	40.6	28.5	0.6	0.2	0.4	5.7	5.3	4.0

Source: DBS Vickers, Bloomberg

Flash Notes

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DBS Vickers (Hong Kong) Limited 18th Floor Man Yee building, 68 Des Voeux Road Central, Central, Hong Kong

Tel: (852) 2820-4888, Fax: (852) 2868-1523