



Upgrade fair value target

Adrian Lowe

adrian.lowe@cls.com
(852) 26008589

11 June 2007

HK/China Media

Reuters 2366.HK
Bloomberg 2366 HK

Priced on 11 June 2007

HK HSI @ 20,615

12M hi/lo HK\$4.35/1.87

12M price target HK\$5.00
±% potential +25%
Target set on 11 Jun 07

Shares in issue 578.5m
Free float (est.) 51.8%

Market cap US\$262m

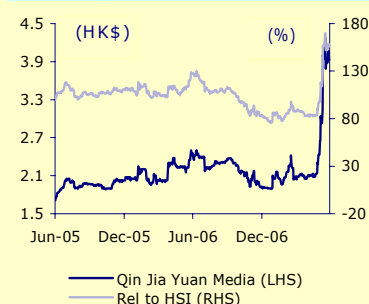
3M average daily volume
HK\$9.5m (US\$1.2m)

Major shareholders

Anita Leung / Philip Wong 31.3%
Aegis plc 16.9%

Stock performance (%)

	1M	3M	12M
Absolute	64.2	93.7	62.9
Relative	63.0	79.8	23.5
Abs (US\$)	64.3	93.7	6118



Source: Bloomberg

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Managing growth

QJY Media successfully raised HK\$240m via a placement of 66m new shares last week – strengthening the company's balance sheet. The net proceeds will be used to expand its PRC ad agency business and also finance TV drama production. The stock has been a strong performer and is now trading at 12x forward earnings – high historically but still very attractive against 06-09CL EPS cagr of 28% and compared with its China media peer group PE average of 22x. We have raised our PE target to 15x from 12x and our HK\$5/share fair value suggests 25% upside.

Financing growth

The placement price of HK\$3.65/share represented a 6% discount to the pre-suspension price, and is reasonable given the subsequent earning dilution (we estimate 1.4% in Sep07CL and 9% in Sep08CL). As the acquisition of the ad agency business had earlier been factored in our model and led to a 15-18% upgrade to Sep08-09CL earnings, the net impact is still positive.

Improved balance sheet

Due to increased working capital needed, the main benefit of the placement is that it improves the company's gearing level. We estimate QJY's net debt will improve from ~HK\$150m to a net cash position of HK\$94m for FYSep08.

Management incentives

Separately, the company plans to revise the CEO employment contract terms. Given that Dr Anita Leung is the heart and soul of the company, the plan is to lock her with the company from now to 31 Dec 2010. She will also incur a substantial salary cut from HK\$7m to HK\$0.4m per annum. Instead her overall remuneration will be linked to group earnings – an amount equivalent to 2-10% of net profit for the three financial years ending 30 Sep 2010 (which will be subject to shareholder approval). The plan is to re-deploy the payroll and hire additional advertising professionals to enhance the company's management team.

Further re-rating; insiders buying

QJY's share price has risen 94% in the past 3 months and now trades at 18.7x current and 12x forward earnings. While high historically, valuations are attractive against 06-09CL EPS cagr of 28% and versus the small cap China media industry CY08 PE average of 22x. We have raised our PE fair value target to 15x from 12x – reflecting improved funding to meet expansion plans, but still at a substantial discount to peers, reflecting execution risks. Our fair value rises to HK\$5/share from HK\$4.50/share previously. Note Anita Leung acquired 0.63m shares at HK\$3.95/share on 8 June.

Financials

Year to 30 Sep	05A	06A	07CL	08CL	09CL
Revenue (HK\$m)	106	125	188	320	384
Rev forecast change (%)			0	0	0
Net profit (HK\$m)	66	84	122	189	207
NP forecast change (%)			2.6	2.7	(3.9)
EPS (HK¢)	14.1	16.4	21.1	32.8	35.8
EPS (% YoY)	11.9	16.3	28.4	55.5	9.2
PEx (@HK\$3.99)	27.9	24.0	18.7	12.0	11.0
EV/Op Ebitda (x)	23.2	20.9	14.7	9.0	7.6
Dividend yield (%)	0.8	0.9	1.1	1.7	1.8
ROAE (%)	22.4	18.3	17.0	19.3	17.8
Net cash (HK\$m)	96	75	206	94	155

Source: CLSA Asia-Pacific Markets

Following a sharp rise, QJY is now trading on 18.7x current year and 12x forward earnings (vs a historical PE average of 10x)

However valuations remain cheap against its small cap China media sector peers (which are trading at an average of 21.8x 08F for stocks under US\$1bn market cap)

New fair value of HK\$5/share

Figure 1

QJY – Historical PE valuations



Source: CLSA Evalu@tor

Source: CLSA Asia-Pacific Markets

Figure 2

QJY Media – Peer group valuations

Stock	Code	Local	Mkt Cap	Avg daily	07CL	08CL	07CL EV/	08CL EV/	07CL	07CL
		Price	(US\$m)	t/o (US\$m)	PE (x)	PE (x)	EBITDA (x)	EBITDA (x)	DY(%)	ROE (%)
Chengdu B-Ray	600880 CH	Rmb 28.23	677	7.1	46.7	50.5	22.9	17.5	0.8	19.4
Clear Media	100 HK	HK\$ 8.29	555	0.2	30.2	20.6	12.8	10.1	-	8.0
XF Media	XFML US	US\$ 7.8	530	13.3	18.4	13.9	13.9	8.8	-	11.8
Xinhua Finance	9399 JP	JPY 59,500	497	5.3	16.1	11.2	11.6	8.1	-	25.2
Asia Media	2149 JP	JPY 1,130	496	10.3	40.6	27.5	37.7	25.5	-	19.8
Tom Group	2383 HK	HK\$ 0.93	464	0.7	36.2	23.8	19.2	14.4	-	8.1
QJY Media	2366 HK	HK\$ 3.99	262	1.2	17.0	11.8	12.8	8.7	1.7	18.0
Beijing Media	1000 HK	HK\$ 9.15	231	0.2	26.7	14.7	5.5	3.9	2.3	6.9
China media average (<US\$1bn)			464	4.8	29.0	21.8	17.1	12.1	1.6	14.7
Focus Media	FMCN US	US\$ 43.29	4,898	43.5	31.8	24.0	26.3	18.0	-	15.6
TVB	511 HK	HK\$ 56.00	3,139	4.1	18.4	16.7	12.7	11.6	3.8	26.2
Phoenix	8002 HK	HK\$ 1.80	1,141	1.0	39.1	35.3	34.0	29.7	0.8	17.7

Source: CLSA Asia-Pacific Markets

Recommendation history - Qin Jia Yuan Media Services 2366 HK

Date	Rec level	Closing price	Target
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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08/03/2007