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### Hong Kong Media

Reuters 2366.HK  
Bloomberg 2366 HK

**Priced on 10 May 2007**  
HK HSI @ 20,746.3

**12M price target** HK\$3.66  
**±% up/downside** +56%  
Target set on 10 May 07

**Market cap** US\$154m  
**Shares in issue** 509.9m  
**Free float (est.)** 45.8%

**3M average daily volume**  
HK\$3.3m (US\$0.4m)

**12M high/low**  
HK\$2.52/1.87

#### Major shareholders

Anita Leung / Philip Wong 35.2%  
Aegis plc 19.0%

#### Stock performance (%)

	1M	3M	12M
Absolute	13.0	13.5	4.4
Relative	10.8	13.2	(14.0)
Abs (US\$)	12.9	13.4	3.5



Source: Bloomberg

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## Small wonder

Qin Jia Yuan Media (QJY), a Hong Kong-based small-cap media-services company and a major supplier of Chinese-language TV drama content in China, reported a 46%YoY increase in interim net earnings – a strong performance. We have raised our FYSep07-09CL forecasts by 9-14%. The stock is trading at 8x forward earnings, a big discount to its peers and our 12x fair-value target.

### Stellar performance

QJY's 1HFYSep07 net earnings rose 46% to HK\$63m - 61% of our previous full year forecast. Turnover rose 48%YoY to HK\$94m – with ad/marketing related revenues much more than expected (over 100% growth). The group also delivered 139 episodes of TV production, on track to reach the 280 episode target for FYSep07. The board increased interim dividend from 1.8 HK cents to 2.5 HK cents, representing a 20% payout.

### Adding value

QJY has received approval to establish an advertising company in China; the operating licence expected in 2H07. A future driver will be the exclusive advertising rights to the film/drama channel of Hubei TV, which the company acquired in January. It is one of only a few foreign companies with ad rights to a mainland TV channel. We forecast this business to account for more than 20% of QJY's revenue by next year.

### Star attraction

The company has recently joined forces with **NewsCorp's** (NWS AU) Star TV to explore the global Chinese TV drama market. The first collaboration is a 30-episode drama series (based on the popular science fiction novel Wesley). Star TV will help QJY distribute in Taiwan and outside China.

### Cheap China growth

We have lifted our overall 07-09CL revenue forecasts by 14-26% and net earnings by 9-14% reflecting higher stronger ad/marketing revenue growth, but higher tax rates. Based on our new numbers, the stock is trading on 7.7x forward earnings against an EPS cagr of 31% for FYSep06-09CL. Valuations are also cheap compared to the industry average 08CL PE of 26x for other China media plays. We set our fair value at 12x FYSep08CL earnings, one standard deviation above mean PE of 10.5x to reflect its growth prospects, but still at a substantial discount to its peers, reflecting its smaller market cap and higher execution risks – translating to a HK\$3.66/share target (vs HK\$3.36/share previously).

### Financials

Year to 30 Sep	05A	06A	07CL	08CL	09CL
Revenue (HK\$m)	106	125	188	275	334
Rev forecast change (%)			14.0	21.2	26.1
Net profit (HK\$m)	66	84	119	156	188
NP forecast change (%)			13.9	9.4	13.5
EPS (HK¢)	14.1	16.4	23.3	30.5	36.8
CLSA/consensus(2) (%)	-	-	109	109	114
EPS (% YoY)	11.9	16.3	42.0	31.0	20.6
PEX (@HK\$2.35)	16.7	14.3	10.1	7.7	6.4
EV/Op Ebitda (x)	13.4	12.2	8.6	5.9	4.5
Dividend yield (%)	1.4	1.5	2.0	2.6	3.1
ROAE (%)	22.4	18.3	20.2	21.8	21.5

Source: CLSA Asia-Pacific Markets

Turnover rose 48%YoY

Net profit up 46%YoY

QJY delivered 139 episodes of TV programming in 1H Sep07

We have lifted our ad revenue/PR/sponsorship revenue forecasts

Xinhua Finance Media and Asian Union New Media have ad rights to TV channels in China as well

Figure 1

**Summary results**

For 6mths ended (HK\$m)	Mar05	Sep05	Mar06	Sep06	Mar07	YoY%	HoH%
<b>Turnover</b>	<b>52.3</b>	<b>54.0</b>	<b>63.5</b>	<b>61.6</b>	<b>93.7</b>	<b>47.6</b>	<b>52.2</b>
<b>Operating profit</b>	<b>31.0</b>	<b>40.6</b>	<b>46.0</b>	<b>43.1</b>	<b>67.1</b>	<b>45.9</b>	<b>55.9</b>
Operating margin (%)	59.3	75.3	72.5	69.9	71.6		
Int Exp	(1.2)	(2.0)	(2.2)	(2.9)	(3.5)		
PBT	29.8	38.6	43.8	40.2	63.6	45.3	58.2
Tax	(1.0)	(1.2)	(0.5)	0.1	(0.7)		
Effective tax (%)	3.4	3.1	1.1	(0.3)	1.0		
<b>Net profit</b>	<b>28.8</b>	<b>37.4</b>	<b>43.3</b>	<b>40.3</b>	<b>62.9</b>	<b>45.5</b>	<b>56.0</b>
<b>EPS (HKc)</b>	<b>7.2</b>	<b>9.0</b>	<b>9.2</b>	<b>8.0</b>	<b>12.3</b>	<b>33.9</b>	<b>54.1</b>
<b>DPS (HKc)</b>	<b>1.5</b>	<b>1.7</b>	<b>1.8</b>	<b>1.8</b>	<b>2.5</b>	<b>38.9</b>	<b>38.9</b>
Payout (%)	20.8	19.0	19.5	22.5	20.3		

Source: CLSA Asia-Pacific Markets

Figure 2

**QJY – Key assumptions and drivers**

FYE September	05A	06A	07CL	08CL	09CL
<b>Drama (episodes)</b>	<b>126</b>	<b>216</b>	<b>280</b>	<b>400</b>	<b>500</b>
YoY%	117.2	71.4	29.6	42.9	25.0
Ad/PR/Sponsorship revenues (HK\$m)	50	51	109	163	194
YoY%	(2.5)	1.6	113.5	49.5	19.0
EBIT margins (%)	66.3	68.0	68.4	71.2	72.1
Effective tax rate (%)	3.2	0.4	5.0	10.0	12.5
Payout ratio (%)	21.1	21.9	20.0	20.0	20.0

Source: CLSA Asia-Pacific Markets

Figure 3

**Selected HK/China listed peers**

Company	Code	Mkt Cap (US\$bn)	Avg daily t/o (US\$m)	Comments
TVB	511 HK	2.9	3.1	World's largest producer of Chinese drama programming, including <b>co-production with CCTV</b> , China's premier TV broadcaster. Official landing rights in Guangdong and 3 star + hotels and foreign compounds in China.
Phoenix TV	8002 HK	0.8	0.7	HK based TV broadcaster, and producer of <b>Mandarin Chinese programming beamed via satellite into mainland China</b> . Official landing rights in Guangdong and 3 star + hotels and foreign compounds in China. New opportunities in China via <b>strategic alliance with China Mobile</b> .
Hunan TV & Broadcast	000917 CH	0.8	19.4	Provides ad agency services, broadcasts TV ads and produces TV programs. Gained its reputation from smash hit SuperGirls program.
Xinhua Finance Media	XFML US	0.8	10.8	Operates various media businesses in China including ad rights to <b>Inner Mongolia Satellite TV</b> .
China TV Media	600088 CH	0.7	9.0	Produces TV drama and programmes for CCTV.
Shaanxi Broadcast & TV	600831 CH	0.6	6.8	Acquisition of 11 municipal cable networks from parent; and acts of advertising agency for several TV and satellite channels
Chengdu B-Ray	600880 CH	0.6	5.1	Ad rights to <b>Chengdu Commerical, Chengdu Daily</b> and <b>Chengdu Evening</b> .
Tom Group	2383 HK	0.5	1.1	Listed media arm of Hutchison Group focusing on Greater China market; holds majority stake in Satellite channel <b>CETV</b> .
Asian Union New Media	419 HK	0.3	1.4	Exclusive ad rights to <b>Hainan satellite TV's Travel Channel China</b> . Also engaged in TV drama/film production in China; and has established a JV with a leading ad agent in Shanghai.
QJY Media	2366 HK	0.2	0.3	QJY Media plans to become a major supplier of TV drama series in China and has collaborated with 8 TV stations in China for TV drama production, procurement and distribution. Has recently <b>acquired the ad rights to Hubei TV's drama channel</b> .
Beijing Media	1000 HK	0.2	0.1	Advertising business of <b>Beijing Youth Daily</b> and <b>Hebei Youth Daily</b>
SEEC Media	205 HK	0.1	0.1	Ad rights to various Chinese publications including <b>Caijing Magazine</b>

Source: CLSA Asia-Pacific Markets

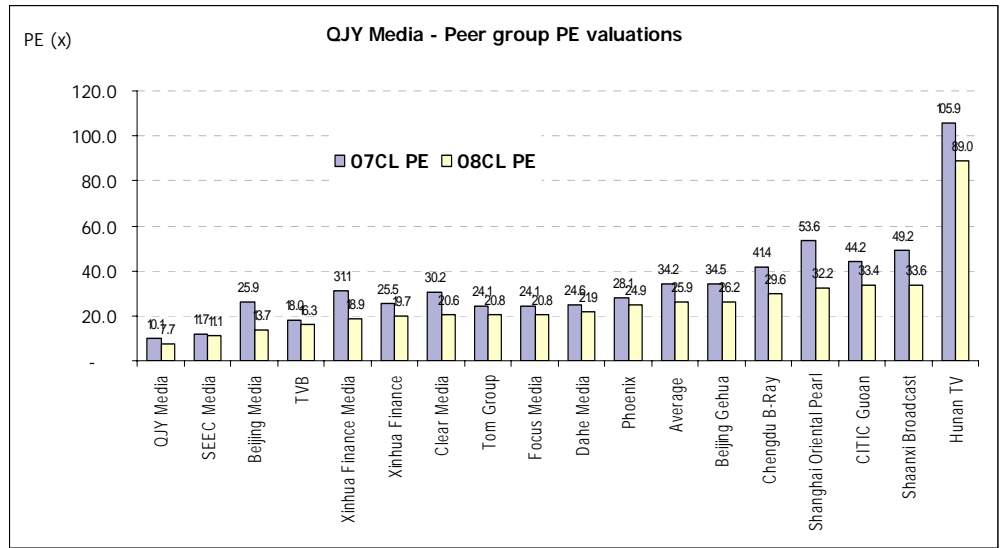
Valuations cheap against its media sector peers with China exposure (which are trading at an average of 26x 08F earnings)

QJY is currently trading on 10.1x current year and 7.7x forward earnings (vs a historical PE average of 10.5x)

We have lifted our fair value target to **HK\$3.66/share** from **HK\$3.36/share**

Figure 4

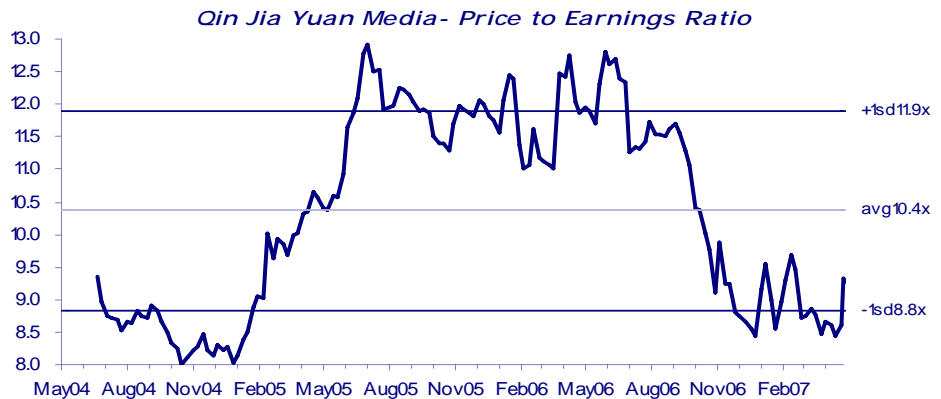
**QJY – Peer group P/E comparisons**



Source: CLSA Asia-Pacific Markets / Bloomberg / IBES

Figure 5

**QJY – Historical PE valuations**



Source: CLSA Evalu@tor

Source: CLSA Asia-Pacific Markets

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

Date	Rec level	Closing price	Target
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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