



Adrian Lowe

adrian.lowe@clsa.com
(852) 26008589

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Hong Kong Media

Reuters 2366.HK
Bloomberg 2366 HK

Priced on 1 June 2006

HK HSI @ 15,645.3

12M price target HK\$3.28

±% up/downside +43%

Target set on 16 May 06

Market cap US\$150m

Shares in issue 507.6m

Free float (est.) 46.9%

3M average daily volume

HK\$5.3m (US\$0.7m)

12M high/low

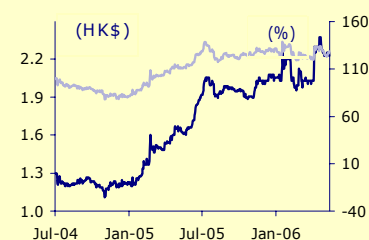
HK\$2.38/1.59

Major shareholders

Anita Leung / Philip Wong 34.2%
Aegis plc 18.9%

Stock performance (%)

	1M	3M	12M
Absolute	2.2	9.5	39.4
Relative	8.9	10.7	23.6
Abs (US\$)	2.2	9.5	39.9



— Qjn Jia Yuan Media Ser (LHS)
— Rel to HSI (RHS)

Source: Bloomberg

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Solid performance

QJY Media reported a 50% increase in earnings for the 6 months ending Mar 06 – a solid set of results, as suggested by the 3.4% share price increase yesterday. As drama production is exchanged for ad slots, QJY is well placed to benefit from China's growing TV ad industry. At only 10.5x forward PE, QJY's valuations are much cheaper than other China media-related plays. Our HK\$3.28/sh fair value (set at 15x 07CL earnings) gives 43% upside.

Good results

QJY Media reported net profit of HK\$43m, up 50%YoY. The result is in line with our expectations and represents 49% of our FYSep06 earnings forecasts. 1HFYSep06 EPS rose 28%YoY, due to dilution following share issue of 70m new shares in August 2005. The board proposed an interim DPS of 1.8 HK cents, representing a 20% dividend payout.

Operating leverage

The strong performance was mainly a result of effective cost control measures and highlights leverage benefits of a low fixed cost base (only 25 staff). While turnover rose 21%YoY to HK\$64m, operating margins increased to 73% from 59% one year ago. Management says it implemented very strict script review control procedures in screening scripts to enhance the quality of TV drama series.

Growing production capacity

QJY completed 65 episodes of drama in 1HSep06. Management plans to produce 180 episodes for the full year and is looking to increase this number to 230 episodes by 2007. The group is looking to cooperate with 6 major TV stations in the PRC in order to increase capacity in production and distribution of TV drama series. QJY has already signed agreements with two provincial TV stations, Shanghai and Jiangsu, where they plan to invest Rmb100-150m.

Valuations cheap against media sector peers

Projecting EPS cagr of 23% for FYSep05-08CL, puts the stock at 13.1x current year and 10.5x forward year earnings. Valuations are cheap compared to the PEs of other China media plays such as TVB (18x), Phoenix (29x), Clear Media (37x). Taking into account execution risks and its small market cap, we set our fair value at 15x 07CL earnings – which translates to a HK\$3.28/sh target.

Financials

Year to 30 Sep	04A	05A	06CL	07CL	08CL
Revenue (HK\$m)	85	106	130	153	175
Net profit (HK\$m)	50	66	89	111	132
EPS (HK¢)	12.6	14.1	17.5	21.9	26.0
CLSA/consensus(1) (%)	-	-	-	-	-
EPS (% YoY)	39.7	11.9	24.3	24.7	18.6
PEx (@HK\$2.30)	18.3	16.3	13.1	10.5	8.9
EV/Op Ebitda (x)	14.7	13.0	10.5	8.1	6.3
Dividend yield (%)	1.3	1.4	1.5	1.9	2.3
FCF yield (%)	-	(7.5)	4.2	5.9	7.8
ROAE (%)	36.6	22.4	21.1	21.6	21.0
Price/book (x)	4.4	2.8	2.5	2.1	1.7

Source: CLSA Asia-Pacific Markets

**Operating leverage:
1H turnover rose 21%YoY**

**but 1H earnings rose
50%YoY**

**Growing production
capacity**

**Valuations cheap against
media sector peers**

Figure 1

QJY Media – Summary results

For 6mths ended (HK\$m)	1HSep05	2HSep05	1HSep06	YoY%	HoH%
Turnover	52.3	54.0	63.5	21.3	17.7
Operating profit	31.0	40.6	46.0	48.3	13.2
Operating margin (%)	59.3	75.3	72.5		
Int Exp	(1.2)	(2.0)	(2.2)		
PBT	29.8	38.6	43.8	46.7	13.3
Tax	(1.0)	(1.2)	(0.5)		
Effective tax (%)	3.4	3.1	1.1		
Net profit	28.8	37.4	43.3	50.1	15.6
EPS	7.2	9.0	9.2	27.7	2.7
DPS	1.5	1.7	1.8	20.0	5.9
Payout (%)	20.8	19.0	19.5		

Source: CLSA Asia-Pacific Markets

Figure 2

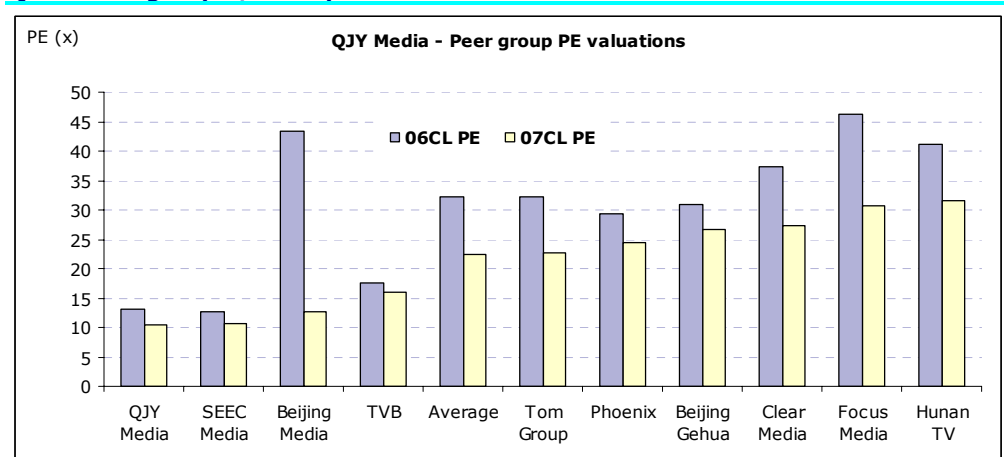
Key drivers

Key assumptions	02A	03A	04A	05A	06CL	07CL	08CL
Drama (episodes)	65.0	57.0	58.0	126.0	180.0	230.0	280.0
YoY%	22.6	(12.3)	1.8	117.2	42.9	27.8	21.7
EBIT margins (%)	68.9	72.6	63.8	66.3	66.8	68.5	69.7
Payout ratio (%)	23.7	19.4	23.0	21.1	20.0	20.0	20.0

Source: CLSA Asia-Pacific Markets

Figure 3

QJY – Peer group P/E comparisons



Source: CLSA Asia-Pacific Markets

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Note: In the interests of timeliness, this document was not edited.

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