

BUY HK\$3.89 HSI : 22,219

(Initiate coverage)

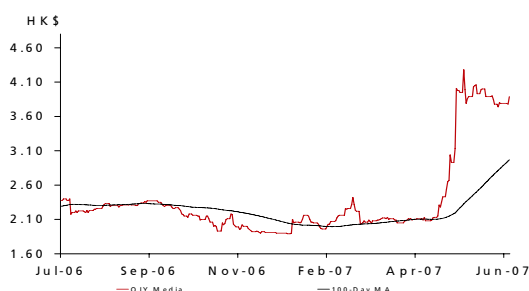
Price Target: 12-month HK\$ 6.23**Reason for Report:** Initiate coverage**Potential Catalyst:** Accelerated expansion by replicating its success in Fujian to other parts of China; new exclusive advertising rights in Hubei and Chongqing also boost growth.**ANALYST**

Mavis Hui +852 2863 8879

mavis_hui@hk.dbsvickers.com

FORECASTS AND VALUATION

FY Sep (HK\$ m)	2005A	2006A	2007F	2008F
Turnover	106	125	190	316
EBITDA	74	92	141	222
Pre-tax Profit	68	84	133	214
Net Profit	66	84	128	199
EPS (HK\$)	0.16	0.17	0.24	0.35
EPS Gth (%)	28.5	6.4	39.7	43.9
Diluted EPS (HK\$)	0.16	0.17	0.24	0.35
DPS (HK\$)	0.03	0.04	0.04	0.07
BV Per Share (HK\$)	0.81	1.05	1.52	1.81
PE (X)	24.1	22.6	16.2	11.2
P/Cash Flow (X)	22.3	20.8	15.2	10.8
EV/EBITDA (X)	20.1	19.8	13.0	9.6
Net Div Yield (%)	0.8	0.9	1.1	1.8
P/Book Value (X)	4.8	3.7	2.6	2.1
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	22.4	18.3	18.2	20.8

SHARE PRICE CHART**AT A GLANCE**

Issued Capital (m shrs)		576
Mkt Cap (HK\$/US\$m)	2,241	/ 287
Major Shareholders (%)		
Leung Anita Fung Yee Maria		31.81
Aegis Group		16.88
Free Float (%)		51.31
Avg Daily Volume (m shrs)		3.9

Earnings Rev : FY07: n.a. FY08: n.a.**Consensus EPS:** FY07: HK\$0.20 ; FY08: HK\$0.28**Variance vs Cons:** FY07: 18.43% ; FY08: 25.78%**Sector :** Media**Bloomberg/Reuters Code:** 2366 HK EQUITY/ 2366.HK**Principal Business:** A one-stop media service provider, successfully allied with major domestic TV stations in China to provide full range of integrated services, ranging from TV drama concept development, production, distribution and advertising arrangements.**QJY Media****Becoming more scalable**

➤ **Story:** QJY Media has recently planned to extend the success of its new channel management business from Hebei to Chongqing. A focused cultivation of this division coupled with the company's rewarding barter scheme on advertising slots should lift its growth momentum.

➤ **Point:** Last month, the company's co-founder & CEO, Dr. Anita Leung, bought 2.57m shares from the market, and revised her remuneration package to tie directly with the company's prospective performance. We believe Leung's strong commitment and confidence in QJY Media highlight the positive outlook of the company.

➤ **Relevance:** In view of QJY Media's increasing capacity to tap growth from the lucrative advertising market of China, as well as stronger advertising momentum in the lead to 2008 Beijing Olympics, the company seems more capable in strengthening its earnings expansion to achieve over 40% EPS CAGR for FY06-08. Such strong growth prospects have prompted us to value the company at HK\$6.23, based on an 18x FY08 PE which is already the lowest-end of the PE range across peers. Trading at an undemanding 11.2x FY08 PE and less than 0.5x PEG, **BUY**.

New acquisitions in Chongqing. Recently, QJY Media announced that it would acquire exclusive advertising & program distribution rights for the Entertainment Channel of its strategic partner - Chongqing TV station. Annual fees payable is RMB25m, for a term of five years commencing from January 2008*. In return, the company enjoys c.260 minutes of daily ad slots, potentially translating into more than RMB900m gross ad revenue per year (before discounts). The acquisitions also complement well with its new nationwide advertising license for China. * The agreements are subject to renewal for another five years at annual fees of RMB30m.

Dual engines to drive growth. We view QJY Media's initial success in Hubei (i.e. escalating viewership to produce a 10% upward revision of rate card starting July 2007), and the latest extension to Chongqing to validate its channel management business as a new growth driver ahead. The company's existing alliances with nine TV stations in China should open up growth opportunities for this division, in adjacent to its smoothly expanding barter scheme (i.e. exchange of dramas for ad slots). Additionally, it will keep an open mind on on-going M&A opportunities to boost growth further.

Robust outlook – the insider's view. Leung has recently cut her annual remuneration to HK\$390,000 (FY06: HK\$7.4m), in return for a bonus in the range of 2-10% on the basis of the company's FY08-FY10 earnings. Last month, she bought a total of 2.57m shares from the market, at an average price of HK\$3.98 each. We believe her devotion to the company does reveal its attractive growth vision to a good extent.

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. 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 its local advertising agency partners. The company's initial success in channel management also helps in strengthening its growth prospects ahead.
- **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.
- **Solid track record.** QJY Media has so far sustained over 40% CAGR in both sales turnover and earnings during FY01-FY06. It has recently allied with eight more provincial TV stations to replicate its business model in Fujian to other areas of China, lifting its TV drama program provision from 216 hours in FY06 to 280 hours in FY07, and 450 hours in FY08. A further extension of its business model could allow the company to ultimately provide 1,000 hours of TV drama programs by FY10, raising its market share in the segment from the existing 3-4% to over 15%.

Industry overview, earnings drivers & risks

- **Robust advertising market in China.** Gross advertising expenditure has been growing at over 20% CAGR during 2000-2006 to reach RMB400bn (before discounts) in China. TV advertising still captures the bulk and takes up c.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 c.20% CAGR in the coming two years as it leads up to the 2008 Beijing Olympics, we see great potentials for QJY Media to tap growth.
- **Multiple growth drivers.** Following success in its alliance with Fujian TV Station, QJY Media extends its business model to form allies with eight more provincial TV stations in Beijing, Dalian, Guangdong, Harbin, Hubei, Jiangsu, Shanghai and Chongqing to speed growth. Additionally, its acquisition of exclusive advertising rights to manage ad slots of the Hubei TV Drama Channel, and the Chongqing Entertainment TV Channel, respectively, could potentially bring in over RMB700m and RMB900m gross ad revenue (before discounts) per annum. The company's latest 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.
- **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 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 soars.
- **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.

Company Focus

QJY Media

Outlook

- **Latest policies become more favourable.** 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 eight other TV Stations in China and penetrate further into the robust Chinese advertising market.
- **EPS CAGR strengthened to more than 40%.** QJY Media has so far maintained a sound track record in extracting growth from the lucrative Chinese advertising market of Fujian. The company's current initiatives to replicate its success into other provinces of China, together with recent collaboration with STAR, and new returns from channel management of both the Hubei TV Drama Channel and Chongqing Entertainment TV Channel could all support a strong EPS CAGR of over 40% for FY06-08.

Financials and valuation

- **Liquidity to improve in time.** Since its IPO in 2004, QJY Media has completed three placements to finance its operations, placing 70m shares at HK\$1.83 each in July 2005, 47m shares at HK\$2.28 each in April 2006, and 66m shares at HK\$3.65 each in June 2007. The company had HK\$75m net cash as of September 2006 and we expect the current position to surpass HK\$250m following its latest placement. Given QJY Media'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 11.2x FY08 PE and less than 0.5x PEG. Despite its recent strong performance to see share prices climbing more than 80% since May 2007, 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 and strengthened expansion possibilities could continue to prompt an upward re-rating potential. QJY Media's strong growth prospects have prompted us to value the company at HK\$6.23, based on an 18x FY08 PE which is already the lowest-end PE range across China media plays. This translates into over 60% upside from the current price level. It is a **BUY**.

Media Peers

Company Name	Currency Code	Price Local\$	Mkt Cap US\$m	Fiscal Yr	PE 06A	PE 07F	PE 08F	Yield 06A	Yield 07F	Yield 08F	ROE 06A	ROE 07F
Multi-media players with TV related operations in China (listed in Hong Kong)												
Phoenix Satellite	8002 HK	HKD 1.89	1,196	Dec-06	44	41	36	0.7	0.7	1.0	19.7	17.7
Qin Jia Yuan Media*	2366 HK	HKD 3.89	255	Sep-06	23	16	11	0.9	1.1	1.6	18.3	17.4
TVB*	511 HK	HKD 56.3	3,156	Dec-06	22	20	19	3.0	3.2	3.5	23.4	23.5
				Average	30	26	22					
Multi-media players with TV related operations in China (listed in China)												
Beijing Gehua	600037 CH	CNY 26.22	3,658	Dec-06	63	70	55	0.2	0.5	0.8	14.0	11.1
Hunan TV	000917 CH	CNY 14.38	641	Dec-06	252	72	121	0.0	n.a.	0.0	1.1	0.9
Shaanxi Broadcast	600831 CH	CNY 24.62	675	Dec-06	189	47	28	0.0	n.a.	0.0	2.9	8.0
				Average	168	63	68					
				Grand average	91	50	36					

Source: Bloomberg, *DBS Vickers

Company Focus

QJY Media

Income Statement (HK\$ m)

FY Sep	2005A	2006A	2007F	2008F
Turnover	106	125	190	316
Cost of Goods Sold	(18)	(23)	(35)	(59)
Gross Profit	88	102	155	257
Other Opg (Exp)/Inc	(19)	(17)	(21)	(43)
EBIT	69	85	133	214
Other Non Opg (Exp)/Inc	1	0	1	1
Associates & JV Inc	0	0	0	0
Net Interest (Exp)/Inc	(2)	(1)	(1)	0
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	68	84	133	214
Tax	(2)	0	(5)	(15)
Minority Interest	0	0	0	0
Preference Dividend	0	0	0	0
Net Profit	66	84	128	199
Net profit before Except.	66	84	128	199
EBITDA	74	92	141	222
Sales Gth (%)	24.4	17.7	52.0	66.2
EBITDA Gth (%)	31.6	23.2	54.0	57.6
EBIT Gth (%)	27.9	21.9	57.6	60.2
Effective Tax Rate (%)	3.3	0.4	4.0	7.0

Balance Sheet (HK\$ m)

FY Sep	2005A	2006A	2007F	2008F
Net Fixed Assets	23	30	38	50
Invts in Assocs & JVs	0	0	0	0
Other LT Assets	90	158	223	325
Cash & ST Invts	157	190	355	228
Other Current Assets	196	321	447	675
Total Assets	466	699	1,063	1,279
ST Debt	55	109	109	109
Other Current Liab	25	51	76	123
LT Debt	6	6	6	6
Other LT Liabilities	0	0	0	0
Shareholder's Equity	380	533	873	1,042
Minority Interests	0	0	0	0
Total Cap. & Liab.	466	699	1,063	1,279
Non-Cash Wkg. Cap	171	270	371	552
Net Cash/(Debt)	96	75	241	114

Cash Flow Statement (HK\$ m)

FY Sep	2005A	2006A	2007F	2008F
Pre-Tax Profit	68	84	133	214
Dep. & Amort.	5	7	8	9
Tax Paid	(1)	(2)	(2)	(2)
Assoc. & JV Inc/(loss)	0	0	0	0
Non-Cash Wkg. Cap.	(146)	(146)	(102)	(182)
Other Operating CF	2	0	2	1
Net Operating CF	(72)	(56)	39	40
Capital Exp.(net)	0	(13)	(15)	(20)
Other Invts.(net)	(14)	(22)	(63)	(85)
Invts in Assoc. & JV	0	0	0	0
Div from Assoc & JV	0	0	0	0
Other Investing CF	1	4	5	6
Net Investing CF	(13)	(31)	(73)	(98)
Div Paid	(18)	(12)	(26)	(40)
Chg in Gross Debt	30	53	0	0
Capital Issues	120	83	232	0
Other Financing CF	(3)	(4)	(7)	(28)
Net Financing CF	129	120	199	(68)
Net Cashflow	44	33	165	(127)

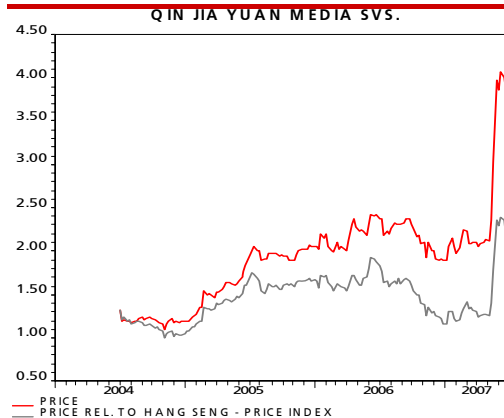
Rates & Ratios

FY Sep	2005A	2006A	2007F	2008F
Gross Margin (%)	82.8	81.4	81.4	81.2
EBITDA Margin (%)	70.0	73.3	74.3	70.4
EBIT Margin (%)	65.3	67.6	70.1	67.6
Net Profit Margin (%)	62.3	66.9	67.3	63.1
ROAE (%)	22.4	18.3	18.2	20.8
ROA (%)	18.2	14.4	14.5	17.0
ROCE (%)	22.7	18.5	18.2	20.7
Div Payout Ratio (%)	21.1	21.9	20.0	20.0
Interest Cover (x)	34.7	78.5	211.3	N/A
Debtors Turn (days)	460.2	665.4	633.1	554.4
Creditors Turn (days)	186.5	348.4	431.2	362.2
Inventory Turn (days)	161.3	482.0	563.0	500.9
Current Ratio (x)	4.4	3.2	4.3	3.9
Quick Ratio (x)	4.2	2.9	4.0	3.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
Capex to Debt (%)	0.0	11.5	13.1	17.5
N.Cash/(Debt)PS (HK\$)	0.2	0.1	0.4	0.2
Opq CFPS (HK\$)	0.18	0.18	0.26	0.39
Free CFPS (HK\$)	(0.18)	(0.14)	0.05	0.03

PE Chart (x)



Price Relative to Index



DBSV recommendations are based on 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

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