

Company Focus

DBS Group Research . Equity

20 September 2007

BUY HK\$3.77 HSI: 25,555
Price Target: 1-year HK\$6.26 (Prev HK\$6.23)

Reason for Report: Company update

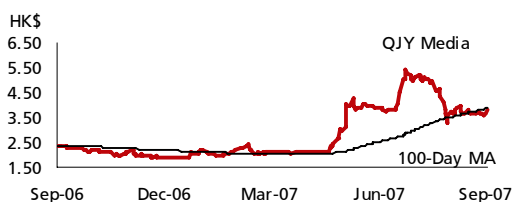
Potential Catalyst: Accelerated expansion by replicating its success in Fujian to other parts of China; new exclusive advertising agency rights for channels in Hubei, Chongqing & Xiamen also boost growth.

ANALYST

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FORECASTS AND VALUATION

FY Sep (HK\$m)	2005A	2006A	2007F	2008F
Turnover	106	125	190	321
EBITDA	76	92	142	224
Pretax Profit	68	84	133	215
Net Profit	66	84	128	200
EPS (HK\$)	0.16	0.17	0.24	0.35
EPS Gth (%)	28.5	6.4	39.7	44.5
PE (x)	23.3	21.9	15.7	10.8
P/Cash Flow (x)	(24.6)	(34.1)	(968.2)	106.2
EV/EBITDA (x)	22.2	20.0	14.2	9.6
DPS (HK\$)	0.03	0.04	0.04	0.07
Div Yield (%)	0.8	1.0	1.2	1.8
Net Gearing (%)	cash	cash	cash	cash
ROE (%)	22.4	18.3	18.2	20.9
Book Value (HK\$)	0.8	1.0	1.5	1.8
P/Book Value (x)	4.7	3.6	2.5	2.1

SHARE PRICE CHART

AT A GLANCE

Issued Capital (m shrs)		576
Mkt Cap (HK\$m/US\$m)	2,172	/ 279
Major Shareholders (%)		
Leung Anita Fung Yee Maria		31.8
Aegis Group		16.88
Free Float (%)		51.32
Avg Daily Volume (m shrs)		2.3

Earnings Rev: FY07 n.a.; FY08 up 1%

Consensus EPS: FY07: HK\$0.23 ; FY08: HK\$0.33

Variance vs Cons: FY07: 4.57% ; FY08: 4.38%

Sector: Media

Bloomberg/Reuters Code: 2366 HK / 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 to distribution & advertising arrangements, as well as channel management operations.

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Refer to important disclosures at the end of this report

QJY Media

A strengthened advertising platform

➤ **Story:** QJY Media has recently announced the addition of Life Channel in Xiamen to its channel management platform. Upon completion, the platform is expected to capture over RMB2bn worth of gross advertising value by 2008.

➤ **Point:** During FY07, the company should complete a total of 280 TV drama episodes as planned. Coupled with about eight months of contribution from managing the Drama Channel in Hubei, we expect QJY Media to run on track towards achieving a 52% y-o-y growth in net profit to RMB128m.

➤ **Relevance:** Riding on a booming Chinese advertising market, QJY Media's proactive expansion in both TV programming and channel management businesses should well support its growth phase in the coming years. The company's share price has recently derailed from a record high level of HK\$5.59 amid volatilities in global market sentiment. Trading at 15.7x FY07 PE, an attractive 0.3x PEG, and at the lowest-end PE multiple across peers, we believe its current price offers a good buying opportunity. We reiterate a **BUY**.

Exclusive ad agency rights in Xiamen. QJY Media recently announced its acquisition of exclusive advertising agency rights for the Life Channel of Xiamen TV Station, for a term of three years, commencing 2008. The contract is renewable for two successive three-year terms till 2016. It will pay RMB20m in agency fee per year (to be increased by 12% and 13.8%, respectively, for the second and third of the three-year term), plus budgeting RMB20m p.a. to buy and produce the required content. Life Channel runs 19 hours daily and achieves an annual rate card of over RMB300m. Given that the channel's scale of operation is on a city level rather than provincial or satellite, we prudently expect immaterial contribution in FY08. As Life Channel's TV rating precedes four channels of CCTV and stands among the top 20 in Xiamen, decent returns should surface in about a year's time after QJY Media steps in.

More opportunities and synergies ahead. Following this deal, QJY Media has been granted top priority for potential co-operation in an impending satellite channel of Xiamen TV Station. Additionally, the company has achieved encouraging results in managing the Drama Channel of Hubei TV Station since 1Q07 - its viewership reached No. 1 among cable TV stations in Hubei for 8M07. As the company realises increasing success in channel management, a larger number of TV stations could be prepared to join QJY Media's platform to further strengthen the operations. All in all, the company's growing content library should provide synergies for its one-stop media and marketing business model.

Buying opportunity. QJY Media is among the few listed vehicles that directly tap the robust advertising market in China. The company rides on a positive outlook to potentially achieve over 50% earnings CAGR for FY06-08, yet trading at just 10.8x FY08 PE against an average of 42.1x across media operators in China. Trading at 40% discount to our target price of HK\$6.26 (based on 18x FY08 PE), it is a **BUY**.

Company Focus

QJY Media

Peers Table

Company Name	Code	Currency	Price	Mkt Cap	Yr ended	PE 06A	PE 07F	PE 08F	Yield 06A	Yield 07F	Yield 08F	P/Bk 06A	P/Bk 07F	P/Bk 08F	ROE 06A	ROE 07F	ROE 08F
		Local\$		US\$m		x	x	x	%	%	%	x	x	x	%	%	%
TV-related operators																	
Beijing Gehua	600037 CH	CNY	31.61	4,460	Dec	75.4	85.0	62.8	0.2	0.5	0.8	8.9	8.6	7.6	14.0	11.2	12.8
TVB*	511 HK	HKD	45.9	2,581	Dec	16.9	15.7	14.5	3.7	4.0	4.3	4.1	3.8	3.4	24.5	24.0	23.7
Hunan TV	000917 CH	CNY	25.3	1,140	Dec	443.9	241.0	148.8	0.0	n.a.	0.0	4.5	4.4	4.3	1.1	0.9	1.3
Phoenix Satellite	8002 HK	HKD	1.73	1,099	Dec	40.2	34.6	29.8	0.8	1.0	1.0	7.0	6.5	5.6	19.7	21.5	22.3
Shannxi Broadcast	600831 CH	CNY	37.02	1,027	Dec	284.8	106.4	49.0	0.0	n.a.	0.0	7.1	n.a.	n.a.	2.9	8.0	12.4
China TV Media	600088 CH	CNY	32.38	1,020	Dec	161.1	124.5	85.0	0.3	0.2	0.4	9.8	9.1	8.2	6.2	12.9	19.3
QJY Media*	2366 HK	HKD	3.77	280	Sep	21.9	15.7	10.8	1.0	1.2	1.8	3.6	2.5	2.1	18.3	18.2	20.9
Average						149.2	89.0	57.3	0.9	1.4	1.2	6.4	5.8	5.2	12.4	13.8	16.1
Publishing																	
Chengdu B-ray	600880 CH	CNY	32.04	777	Dec	64.1	56.2	37.5	0.6	0.8	0.9	12.3	9.2	7.7	19.7	19.6	22.2
Beijing Media	1000 HK	HKD	7.1	50	Dec	62.3	23.6	13.8	2.9	3.2	5.2	n.a.	1.0	1.0	1.7	9.0	6.9
Average						63.2	39.9	25.7	1.8	2.0	3.1	12.3	5.1	4.3	10.7	14.3	14.5
Outdoor																	
Focus Media	FMCN US	USD	47.79	5,330	Dec	57.9	34.8	25.6	0.0	0.0	0.4	4.6	6.4	5.2	16.6	18.2	18.9
Clear Media	100 HK	HKD	7.9	532	Dec	33.8	27.5	17.5	0.0	0.0	0.4	2.1	2.1	1.8	7.1	7.7	10.9
Average						45.8	31.2	21.6	0.0	0.0	0.4	3.4	4.2	3.5	11.8	12.9	14.9
Internet																	
Tencent	700 HK	HKD	44.3	10,140	Dec	70.9	56.0	40.2	n.a.	0.4	0.7	18.0	15.5	11.6	32.0	29.1	33.9
Baidu.com	BIDU US	USD	268.79	6,171	Dec	222.9	116.7	71.5	0.0	0.0	0.0	42.9	35.3	24.0	25.6	33.8	37.3
Sina	SINA US	USD	47.28	2,585	Dec	63.9	47.5	34.3	0.0	0.0	0.0	6.0	5.8	4.9	11.3	13.1	16.0
Sohu	SOHU US	USD	38.23	1,417	Dec	54.6	45.4	29.4	0.0	0.0	0.0	8.0	7.4	5.7	18.1	17.9	22.8
51job	JOBS US	USD	15.99	439	Dec	34.8	24.9	19.5	0.0	0.0	0.3	3.2	3.0	2.5	11.0	12.3	15.3
Tom Group	2383 HK	HKD	0.77	385	Dec	96.3	38.5	25.7	0.0	0.0	0.0	1.0	1.1	1.0	1.1	8.1	9.8
Average						90.6	54.8	36.8	0.0	0.1	0.2	13.2	11.3	8.3	16.5	19.0	22.5
Grand Average						106.2	64.4	42.1	0.6	0.8	1.0	9.0	7.6	6.0	13.6	15.6	18.0

Source: Bloomberg, *DBS Vickers

Financials at a Glance

Income Statement (HK\$m)

FY Sep	2005A	2006A	2007F	2008F
Turnover	106	125	190	321
EBITDA	76	92	142	224
Depr/Amort	(5)	(7)	(8)	(9)
Opg Profit	70	85	134	215
Associates Inc	-	-	-	-
Interest (Exp)/Inc	(2)	(1)	(1)	0
Exceptionals	-	-	-	-
Pre-Tax Profit	68	84	133	215
Tax	(2)	(0)	(5)	(15)
Minority Interest	-	-	-	-
Net Profit	66	84	128	200
Sales Growth (%)	24.4	17.7	52.0	68.8
Net Profit Gr (%)	31.5	26.2	53.0	56.5
EBITDA Mgn (%)	71.1	73.7	74.5	69.7
Opg Mgn (%)	67.4	71.2	73.1	69.0
Tax Rate (%)	3.3	0.4	4.0	7.0

Balance Sheet (HK\$m)

FY Sep	2005A	2006A	2007F	2008F
Fixed Assets	23	30	37	44
Other LT Assets	90	158	260	351
Cash/ST Investments	157	190	278	148
Other Current Assets	196	321	488	738
Total Assets	466	699	1,063	1,282
ST Debt	55	109	109	109
Other Current Liab	25	51	76	125
LT Debt	6	6	6	6
Other LT Liab	-	-	-	-
Minority Interests	-	-	-	-
Shareholders' Equity	380	533	873	1,043
Total Capital	466	699	1,063	1,282
Share Capital (m)	470	510	576	576
Net Cash/(Debt)	96	75	163	34
Working Capital	274	351	581	653
Net Gearing (%)	cash	cash	cash	cash

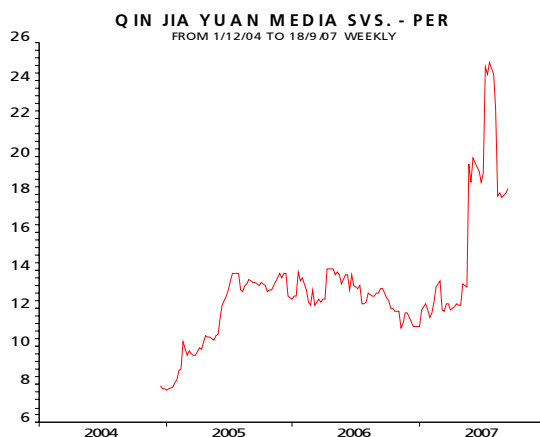
Cash Flow Statement (HK\$m)

FY Sep	2005A	2006A	2007F	2008F
Profit before tax	68	84	133	215
Depr/Amort	5	7	8	9
Taxation	(1)	(2)	(2)	(2)
Chg in Wkg Cap	(146)	(146)	(143)	(202)
Othr Non-Cash	1	(0)	2	1
Operational CF	(72)	(56)	(2)	20
Capex	(4)	(13)	(14)	(15)
Assoc, MI, Invsmt	(9)	(18)	(95)	(71)
Investment CF	(13)	(31)	(109)	(85)
Net Chg in Debt	18	48	(0)	(0)
New Capital	128	86	232	-
Dividend	(18)	(12)	(26)	(40)
Other financing CF	(11)	(7)	(7)	(24)
Financing CF	117	115	199	(65)
Chg in Cash	32	28	88	(129)
Chg in Net Cash	14	(21)	88	(129)

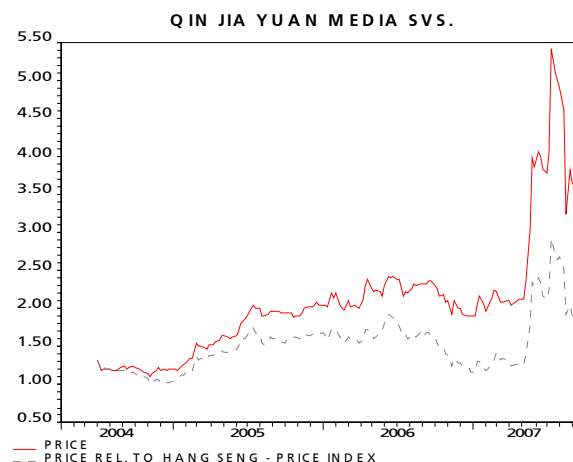
Segmental Breakdown (HK\$m)

FY Sep	2005A	2006A	2007F	2008F
TV programme related income	56	74	81	115
Marketing related income	17	36	78	173
Public relations service income	34	15	30	33
Total sales	106	125	190	321

Valuation Graph: PE (x)



Price Relative to Index



Source: Company, Datastream, DBS Vickers

DBSV recommendations are based on an 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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