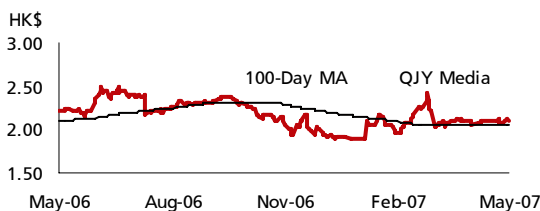


NOT RATED HK\$2.15 HSI: 20,897**Price Target:** n.a.**Potential Catalyst:** Accelerated expansion by replicating its success in Fujian to other parts of China; new exclusive advertising rights in Hubei also boost growth.**ANALYST**Mavis Hui · (852) 2863 8879 ·
mavis_hui@hk.dbsvickers.com**FORECASTS AND VALUATION**

FY Sep (HK\$m)	2005A	2006A	2007F	2008F
Turnover	106	125	160	220
EBITDA	76	92	116	159
Pretax Profit	68	84	108	151
Net Profit	66	84	102	140
EPS (HK\$)	0.16	0.17	0.20	0.27
EPS Gth (%)	28.5	6.4	16.7	36.8
PE (x)	13.3	12.5	10.7	7.8
P/Cash Flow (x)	(14.1)	(19.4)	14.7	12.7
EV/EBITDA (x)	12.1	11.1	9.0	6.5
DPS (HK\$)	0.03	0.04	0.04	0.05
Div Yield (%)	1.5	1.7	1.9	2.6
Net Gearing (%)	n/a	n/a	n/a	n/a
ROE (%)	22.4	18.3	17.8	20.6
Book Value (HK\$)	0.8	1.0	1.2	1.4
P/Book Value (x)	2.7	2.1	1.8	1.5

SHARE PRICE CHART**AT A GLANCE**

Issued Capital (m shrs)		510
Mkt Cap (HK\$m/US\$m)	1,096	/ 140
Major Shareholders (%)		
Leung Anita Fung Yee Maria		35.41
Aegis Group		19.05
Free Float (%)		45.54
Avg Daily Volume (m shrs)		1.3

Earnings Rev: FY06 n.a.; FY07 n.a.**Consensus EPS:** FY07: HK\$0.21 ; FY08: HK\$0.28**Variance vs Cons:** FY07: -2.03% ; FY08: -1.55%**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 and production to distribution and advertising arrangements.**QJY Media****A bargain play**

➤ **Story:** QJY Media has effectively tapped the robust Chinese advertising market by exchanging drama production for prime-time advertising slots in China. Its current replication of success from the Fujian TV alliance to eight other TV stations will instantly generate a national network that multiplies growth in the coming years.

➤ **Point:** Recently, the company has acquired exclusive advertising rights of the Hubei TV Drama Channel and collaborated with STAR to broadcast its Chinese TV dramas abroad. These moves should strengthen its integrated media service platform and boost expansion further.

➤ **Relevance:** So far, QJY Media has earned a sound track record in extracting growth from the lucrative Chinese advertising market. Coupled with its current initiatives to repeat success in other areas of China and additional benefits from joining hands with STAR, we believe the company could post over 25% earnings CAGR in FY06-08. Based on a 15x 12-month rolling PE against peers' average of c.20x and over, QJY Media's fair value could reach HK\$3.66, offering 70% upside.

The multiplier effect. QJY Media leverages on its strong library of script content (by adapting famous novels of founder Anita Leung and the Wesley science fictions of Ni Kuang) to facilitate production of quality TV dramas in China. Its earlier alliance with Fujian TV Station allows the company to barter dramas for prime-time advertising slots, effectively tapping the Chinese advertising market. Riding on this lucrative one-stop media-marketing business model, QJY Media currently extends its success to form eight more strategic alliances with provincial TV stations in Beijing, Dalian, Guangdong, Harbin, Hubei, Jiangsu, Shanghai and Chongqing to speed growth. At least RMB300m investment for 600 hours of drama has already been committed to support growth of QJY Media ahead.

New advertising income from Hubei. QJY Media paid RMB63m to acquire exclusive advertising rights of Hubei TV Drama Channel this January. In return, the company enjoys 156 minutes of daily ad slots, which could translate into more than RMB600m gross ad revenue per year (before discounts). Should this new operation succeed, QJY Media can roll it out in adjacent to its expanding barter scheme.

Latest alliance with STAR. Just this month, the company has allied with the leading Asian media group STAR to jointly develop the Wesley fiction adapted Chinese dramas for distribution in China and overseas. To some extent, we believe such an alliance serves as recognition of QJY Media's expertise and accomplishment in the Chinese drama industry, and highlights its success in tapping the robust advertising market in China. Looking ahead, the company will continue to keep an open mind on suitable alliances and M&A opportunities to boost growth.

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 up the exchange rights for certain commercial airtime, thus effectively tapping the Chinese advertising market along with its local advertising agency partners.

Strong management team & strategic shareholder. Founded in 1995 by famous novelist Anita Leung and her husband 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 in FY01-FY06. It has recently allied with eight more provincial TV stations to replicate its business model across 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 a 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 c.RMB130bn. 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 currently extends its business model to ally with eight more provincial TV stations in Beijing, Dalian, Guangdong, Harbin, Hubei, Jiangsu, Shanghai and Chongqing to speed growth. Its acquisition of exclusive advertising rights to manage ad slots of the Hubei TV Drama Channel could also potentially bring in over RMB600m gross ad revenue per annum. Additionally, the company's latest alliance with the leading Asian media group STAR helps broadening 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 founder Anita Leung and Wesley science fictions of Ni Kuang. Such popular scripts could provide a good foundation to 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 fresh try-out and the company may take some time to fine tune the operation to maximise potential returns. Other risks include possible execution and regulatory risks.

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 Chinese companies as domestically produced dramas, which will be entitled to 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 to penetrate further into the robust Chinese advertising market. In addition, the company has entered into a long-term co-operative agreement with Chongqing

Equity Explorer

QJY Media

TV Station to set up an artist agency business unit for talent training to support production requirements of the Chongqing Satellite TV, which further underlines QJY Media's capacity as a one-stop media service provider.

Earnings CAGR surpasses 25%. 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 in other provinces of China, coupled with new returns from exclusively managing advertising rights of Hubei TV Drama Channel, and additional benefits from joining hands with STAR should all support over 25% earnings CAGR for FY06-08.

Financials and valuation

Liquidity to improve in time. Since its IPO in 2004, QJY Media has completed two placements to finance its operations, placing 70m shares at HK\$1.83 each in July 2005 and 47m shares at HK\$2.28 each in April 2006. The company had HK\$75m net cash as of September 2006. Given its 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 lower initial funding requirement in proportion to its operational scale.

A good bargain. QJY Media is trading at only 10.7x prospective PE and 7.8x FY08 PE. The counter currently stands at the lowest-end PE multiple against other multi-media plays that operate in China. We believe its sound track record coupled with good expansion potentials could trigger positive re-rating potentials ahead. Based on just 15x 12-month rolling PE against peers' average of at least c.20x, QJY Media's fair value could reach HK\$3.66, offering 70% upside.

Media Peers Table

Company Name	Code	Currency	Price Local\$	Mkt Cap US\$m	Fiscal Yr	PE 06A x	PE 07F x	PE 08F x	Yield 06A %	Yield 07F %	Yield 08F %	ROE 06A %	ROE 07F %	ROE 08F %
Multi-media players with TV related operations in China (listed in Hong Kong)														
Phoenix Satellite	8002 HK	HKD	1.32	835	Dec-06	31	29	26	1.1	1.1	1.5	19.7	19.1	21.0
Qin Jia Yuan Media*	2366 HK	HKD	2.15	140	Sep-06	13	10	8	1.7	2.2	2.6	18.3	17.9	20.4
TVB*	511 HK	HKD	53	2,969	Dec-06	21	19	18	3.2	3.4	3.7	23.4	23.5	23.5
						Average	21	20	17					
Multi-media players with TV related operations in China (listed in China)														
Beijing Gehua	600037 CH	CNY	34.42	2,959	Dec-06	51	58	44	0.3	0.5	0.9	14.0	11.1	13.1
Hunan TV	000917 CH	CNY	21.45	943	Dec-06	376	180	147	0.0	n.a.	n.a.	1.1	0.9	1.3
Shaanxi Broadcast	600831 CH	CNY	24.42	660	Dec-06	188	47	32	0.0	n.a.	n.a.	2.9	8.0	12.4
						Average	205	95	74					
Other media operators in China														
Beijing Media	1000 HK	HKD	8.9	62	Dec-06	82	26	14	2.8	2.0	2.0	0.8	6.9	9.6
Clear Media	100 HK	HKD	8.32	557	Dec-06	36	27	19	0.0	0.3	0.0	7.1	8.4	10.8
SEEC Media	205 HK	HKD	0.37	74	Dec-06	n.a.	12	n.a.	1.1	2.7	n.a.	11.7	n.a.	n.a.
Tom Group	2383 HK	HKD	0.92	458	Dec-06	115	35	17	0.0	0.0	0.0	1.1	8.1	9.8
						Average	78	25	17					
						Grand average	101	45	36					

Source: Bloomberg, *DBS Vickers

Financials at a Glance

Income Statement (HK\$ m)

FY Sep (HK\$m)	2005A	2006A	2007F	2008F
Turnover	106	125	160	220
EBITDA	76	92	116	159
Depr/Amort	(5)	(7)	(8)	(9)
Opg Profit	70	85	108	151
Associates Inc	-	-	-	-
Interest (Exp)/Inc	(2)	(1)	(1)	0
Exceptionals	-	-	-	-
Pre-Tax Profit	68	84	108	151
Tax	(2)	(0)	(5)	(11)
Minority Interest	-	-	-	-
Net Profit	66	84	102	140
Sales Growth (%)	24.4	17.7	27.6	37.8
Net Profit Gr (%)	31.5	26.2	22.5	36.8
EBITDA Mgn (%)	71.1	73.7	72.9	72.4
Opg Mgn (%)	67.4	71.2	71.1	71.3
Tax Rate (%)	3.3	0.4	5.0	7.0

Balance Sheet (HK\$ m)

FY Sep (HK\$m)	2005A	2006A	2007F	2008F
Fixed Assets	23	30	38	46
Other LT Assets	90	158	223	250
Cash/ST Investments	157	190	164	176
Other Current Assets	196	321	375	468
Total Assets	466	699	799	940
ST Debt	55	109	109	109
Other Current Liab	25	51	65	88
LT Debt	6	6	6	6
Other LT Liab	-	-	-	-
Minority Interests	-	-	-	-
Shareholders' Equity	380	533	620	738
Total Capital	466	699	799	940
Share Capital (m)	470	510	510	510
Net Cash/(Debt)	96	75	49	61
Working Capital	274	351	365	447
Net Gearing (%)	n/a	n/a	n/a	n/a

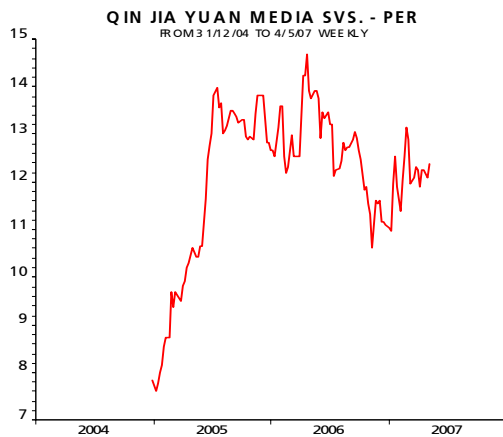
Cash Flow Statement (HK\$ m)

FY Sep (HK\$m)	2005A	2006A	2007F	2008F
Profit before tax	68	84	108	151
Depr/Amort	5	7	8	9
Taxation	(1)	(2)	(2)	(2)
Chg in W/kg Cap	(146)	(146)	(41)	(71)
Othr Non-Cash	1	(0)	2	1
Operational CF	(72)	(56)	75	87
Capex	(4)	(13)	(15)	(15)
Assoc, MI, Invsmt	(9)	(18)	(58)	(3)
Investment CF	(13)	(31)	(73)	(18)
Net Chg in Debt	18	48	(0)	(0)
New Capital	128	86	-	-
Dividend	(18)	(12)	(20)	(28)
Other financing CF	(11)	(7)	(7)	(28)
Financing CF	117	115	(27)	(56)
Chg in Cash	32	28	(26)	12
Chg in Net Cash	14	(21)	(26)	12

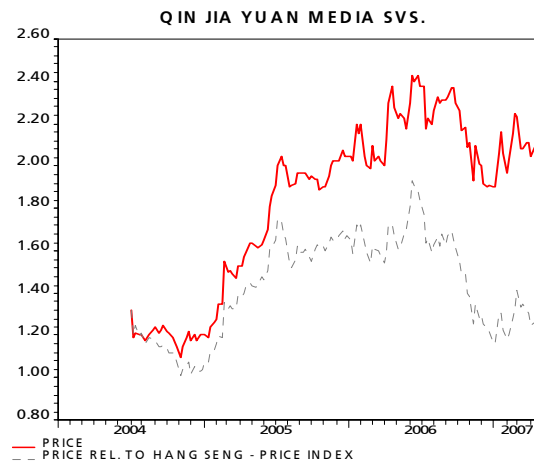
Segmental Breakdown (HK\$ m)

FY Sep (HK\$m)	2005A	2006A	2007F	2008F
TV programme related income	56	74	86	132
Marketing related income	17	36	57	72
Public relations service income	34	15	16	16
Total sales	106	125	160	220

Valuation Graph: PE (x)



Price Relative to Index



Source: Company, Datastream, DBS Vickers

ANALYST CERTIFICATION

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