

**Analyst: Sabina Cheng**

## **Main Board Listing – Research**

現代傳播控股有限公司

**Modern Media Holdings Limited [Stock Code: 00072]**
**Global Coordinator, Bookrunner,  
Sponsor and Lead Manager**

: ICBC International

**Sector** : Media

**Business** : Operation of the magazines in Hong Kong and the PRC

<b>Total share offer:</b> <u>100,000,000</u> shares* (25% of the enlarged share capital) <b>Public Offer:</b> 10,000,000 shares (10%) <b>Placing:</b> 90,000,000 shares (90%) <i>*All 100,000,000 shares are New Shares</i>	<b><u>Business of Modern Media (“the Group”)</u></b>  Modern Media is a unique Chinese lifestyle media group with widely recognized magazines. Since 1999, the Group has been providing diversified lifestyle magazines for the emerging educated elites in China. It has eight magazines, namely, “Modern Weekly” (週末畫報), “U+ Weekly” (優家畫報), “The Outlook” (新視線), “City Magazine” (號外), “Life Magazine”(生活月刊), “Auto Life” (汽車生活), “LOHAS” (健康時尚), and “Metropolis” (大都市).  The Group also provides integrated and tailor-made marketing solutions to its advertising customers, through its “Mag-Form”, the multi-segmented business platform of magazines. This includes all categories advertising, target segmentation solution, special event management, creative editorial design services and joint marketing campaigns. All printing works of the Group are outsourced to three printers in both China and Hong Kong, whilst the distribution of magazines is handled by approximately 200 distributors in over 20 major cities in the PRC.  As of 31 <sup>st</sup> March 2009, the Group derived 90.5% of its gross revenue from advertising income, 6.0% from circulation income and 3.5% from sponsorship, event and service income.
<b>Price:</b> HK\$1.15 – HK\$1.41 per share <b>Market Cap:</b> HK\$460 million – HK\$564 million <b>Pro forma fully diluted FY08 P/E:</b> 9.0x – 11.0x <b>Adjusted NTA per share:</b> HK\$0.68 – HK\$0.74 <b>Staffing:</b> 643 (as of 24 <sup>th</sup> August 2009)	
<b>HK Public Offer period:</b> 28 <sup>th</sup> August 2009 – 2 <sup>nd</sup> September 2009 noon <b>Receiving Bank:</b> ICBC (Asia) <b>Share registrar:</b> Tricor Investor Services Ltd. <b>Listing date:</b> 9 <sup>th</sup> September 2009	

### **Shareholders after Listing** (Assuming the over-allotment option is not exercised)

Mr Shao Zhong – the founder, chairman and an executive director of the Group	75.0%
Public shareholders	25.0%
	<u>100.0%</u>

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**Use of Proceeds**

Net proceeds from the offer are estimated to be HK\$106.1 million (based on an offer price of HK\$1.28, being the mid-point of the indicative price range and assuming the over-allotment option is not exercised)

	HK\$ million
For operating new nationally-distributed magazines	37.1
For collaborating with reputed international publishers to launch the Chinese editions of their high-end lifestyle and fashion-focused monthly magazines in the PRC and/or Hong Kong	21.2
For conducting selective investment in magazines of second tier cities in the PRC	10.6
For enhancing the company's sales and marketing effort	21.2
For expanding the company's geographical coverage	10.6
For funding general working capital	5.4

**Financial Highlights**

	Year ended 31 <sup>st</sup> December			Three months ended 31st March	
	2006 RMB' 000	2007 RMB' 000	2008 RMB' 000	2008 RMB' 000	2009 RMB' 000
Turnover	231,302	281,085	347,825	65,105	60,022
Gross profit	124,188	163,642	204,986	34,509	23,697
Profit/(loss) before taxation	41,436	49,560	57,003	(3,638)	(10,959)
<b>Profit/ (Loss) attributable to equity shareholders</b>	<b>35,950</b>	<b>41,800</b>	<b>45,018</b>	<b>(3,932)</b>	<b>(9,717)</b>
Gross profit margin	53.7%	58.2%	58.9%	53.0%	39.5%
Operating profit margin	17.9%	17.6%	16.4%	-5.6%	-18.3%
Net Profit margin	15.5%	14.9%	12.9%	-6.0%	-16.2%
Cash and Cash equivalents	17,815	46,379	37,291	19,747	11,610

**Breakdown of turnover in terms of products**

	Year ended 31 <sup>st</sup> December						Three months ended 31st March	
	2006 RMB' 000	%	2007 RMB' 000	%	2008 RMB' 000	%	2008 RMB' 000	2009 RMB' 000
Advertising income	235,387	94.7%	289,040	94.4%	359,461	94.1%	65,069	59,210
Circulation income	10,881	4.3%	9,722	3.2%	13,614	3.6%	2,789	3,895
Sponsorship, event and service income	2,401	1.0%	7,296	2.4%	8,794	2.3%	2,765	2,311
<b>Gross revenue</b>	<b>248,669</b>	<b>100.0%</b>	<b>306,058</b>	<b>100.0%</b>	<b>381,869</b>	<b>100.0%</b>	<b>70,623</b>	<b>65,416</b>
Less: Sales taxes and other surcharges	(17,367)		(24,973)		(34,044)		(5,518)	(5,394)
<b>Revenue</b>	<b>231,302</b>		<b>281,085</b>		<b>347,825</b>		<b>65,105</b>	<b>60,022</b>



## **Strengths/Opportunities**

- ✓ **Expanding geographical coverage and magazine portfolio** The Group plans to strengthen its presence in Hangzhou, Nanjing, Chongqing, Chengdu and Tianjin by end of 2010, and Wuhan, Shenyang, Dalian, Qingdao, Harbin and Xi An by end of 2011. Meanwhile, it plans to launch high-end lifestyle and fashion-focused monthlies in Chinese versions which should help expand its existing magazine portfolio going forward.
- ✓ **Expect a steady growth in the advertising expenditures in China** Market expects that the growth of advertising expenditures in China to be 5.4% year on year in 2009. Given the Shanghai World Expo and 2010 FIFA World Cup South Africa, it is anticipated that the total advertising expenditures in China will grow by 5.2% year on year in 2010 and 8.9% year on year in 2011. The company should be benefited from this steady growth as over 90% of its income has been derived from its customers' advertising expenditures between FY06-FY08.
- ✓ **Improving growth outlook** The company's business outlook should be improved upon the bottoming out of the global economy, falling printing costs per copy resulting from better economies of scale, as well as the Group's continued effort in its network expansion.
- ✓ **Fair valuation** Market estimated that the Group can earn around RMB51 million in FY10 with PER between 9x and 11x, representing a discount (some 25%) to its Hong Kong listed peers. We see the above earning multiples reasonable given that the Group has shorter history and limited diversification in media types.

## **Weaknesses/Threats**

- ✓ **Advertising income is highly correlated with economic cycles** The Group's advertising income decreased by 9.1% year on year to around RMB59.2 million for the three months ended 31<sup>st</sup> March 2009, on lower demand in its advertising space and services, following the outbreak of the global financial crisis in late 2008. However, the Group's cost of operation remained nearly the same over the same period. Thus, this could not be a surprise to have a net margin deterioration over the period.
- ✓ **Keen competition in magazine sector** At present, there is keen competition in the lifestyle magazine market in both Hong Kong and China. We see earnings downside risk if readers are distracted by new publications and change their tastes.

**Recommendation:    Trading buy**



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