

Analyst: Sam Ho

GEM Board H-share Listing- Research

南京大賀戶外傳媒股份有限公司

Nanjing Dahe Outdoor Media Co., Ltd. [Stock Code: 8243]

Sponsor : Guotai Junan Capital Limited
Global Coordinator, Bookrunner and Lead Manager : Guotai Junan Securities (HK) Limited

Sector : Outdoor advertising

Business : Provision of a full-range outdoor advertising service in the PRC

Total share offer: <u>250,000,000</u> shares (30.12% of the enlarged share capital) Placement: 225,000,000 shares (90%) IPO: 25,000,000 shares (10%)	<u>Business of Nanjing Dahe Outdoor</u> The Company is an outdoor advertising-service provider in the PRC and provides a full range of specialized outdoor advertising services, which include design and production of outdoor advertisement and dissemination of them through renting out its outdoor advertising space in the PRC. The Company provides its services through its outdoor advertising network in the PRC, which comprises 15 branches (14 of which are equipped with production and printing equipment with a total GFA of 23,000 m ²), as well as 8 service centres, located in 23 major cities. The Company also rents out outdoor advertising space with an aggregate display area of 45,000 m ² , over which the Company has outdoor advertising rights for period ranging from 1 year to 20 years. The outdoor advertising spaces are located in major cities of the PRC (such as Nanjing, Shanghai, Beijing, Chengdu and Urumuqi).
Price: HK\$0.46-HK\$0.68 per share H-share market cap.: HK\$115 million-HK\$170 million Prospective FY2003 P/E: 13.5x-20.0x (fully diluted) Adjusted NAV per share: HK\$0.24-HK\$0.30 Staffing: 981	
IPO opens: 31 st October 2003 IPO closes: 5 th November 2003 Share registrar: Computershare Hong Kong Investor Services Limited Receiving bank: Standard Chartered Bank Listing date: 13 th November 2003	

Major Shareholders after Listing

He Chaobing, the CEO and executive of the Company *	43.94%
Yan Jian, the brother-in-law of He Chaobing	6.97%
Nanjing Hi-Tech Venture Capital *	6.02%
Xue Guiyu, a member of the supervisory committee of the Company *	4.88%
Jiangsu Nanda Venture Capital *	3.61%
Ju Guanyu, an executive director of the Company *	1.23%
Zhu Weimin, the managing director of the Company's subsidiary	1.08%
He Lianyi, a non-executive director of the Company *	0.77%
Zhao Dehong, a general manager of the Company's Beijing branch office *	0.46%
Wang Mingmei, a member of the supervisory committee of the Company	0.46%
Wang Weijie, an executive director of the Company *	0.46%
	<u>69.88%</u>

*- these shareholders are subject to a 12-month lock-up period

Use of Proceeds

Net proceeds from the offer are estimated to be HK\$101.0 million
(Based on the minimum price of the price range of HK\$0.46 each)

	HK\$ million
To expand the existing advertising media network by acquiring additional outdoor advertising space	67.8
To use for the production of the Company's multi-media system based advertising media	13.9
To upgrade printing facilities by purchasing additional printers	13.9
To strengthen the Company's service network and computer network infrastructure	5.4

Financial Highlights

	4 months ended 30 th April 2003	Year ended 31 st December 2002	Period from 29 th December 2002 to 31 st December 2000
	RMB'000	RMB'000	RMB'000
Revenue			
Outdoor advertisement design and production fees	43,732	157,749	98,114
Advertising income from the renting of outdoor advertising space	4,080	825	-
Franchise fee income from the franchising of "Dahe"- franchised poster printing shops	3	70	-
	<u>47,815</u>	<u>158,644</u>	<u>98,114</u>
Operating profit	<u>6,790</u>	<u>31,374</u>	<u>19,675</u>
Net profit	<u>4,926</u>	<u>29,687</u>	<u>19,322</u>
Dividend	-	5,800	3,384
EPS	<u>RMB0.008</u>	<u>RMB0.051</u>	<u>RMB0.033</u>

Strengths

- ✓ The PRC's total advertising expenditure rose from RMB 2.8 billion in 1991 to RMB39.4 billion in 2000, representing a CAGR of 30.2%, while outdoor advertising expenditure grew from RMB0.6 billion in 1991 to RMB6.2 billion in 2000 at a CAGR of 26.2%. In 2000, outdoor advertising has captured some 15.9% market share of the total PRC advertising expenditure, which makes it the 3rd-largest advertising medium in the PRC. With the sustaining growth in the PRC economy, advertising spending should grow in track with the economy. Thus, the outlook for outdoor advertising business should be resilient.
- ✓ According to the China Advertising Association, the Company captured market share of over 15% of the poster printing business in the PRC in 2001 and 2002, and its turnover from the design and production of outdoor advertising posters was amongst the highest advertising companies in the PRC during 2001 and 2002. The leading position of the Company helps it secure businesses from major advertisers that serve larger customers.
- ✓ Priced at prospective P/E of range 13.5x-20x, valuation of Nanjing Dahe Outdoor is undemanding when compared with its listed peers. Clear Media (stock code: 0100) is trading at its 2003E P/E of 30x and 2004E P/E of 23x, while Media Partners International (stock code: 8072) is expected to incur losses in 2003 but trading at its 2004E P/E of 19x.

Weaknesses

- × Competition in the outdoor advertising industry is keen, with numerous players in different provinces and cities in the PRC offering similar products or services. Moreover, the Company's outdoor advertising space also faces competition from other forms of advertising media (such as newspapers and magazines).
- × The PRC advertising industry is highly regulated and governed by the PRC Advertising Law.
- × A majority of the Company's total revenue (around 90%) is generated on a project-by-project basis and the future profitability of the Company depends on its ability to continuously secure new outdoor advertisement production projects.

Recommendation: Trading buy