

**Gems TV provides valuation benchmark****China Media****Landune (245 HK, HK\$0.17)****Not Rated**

**Gems TV seeking Singapore listing.** Gems TV, a TV home shopping retailer with a focus in sales of gemstone jewellery, is reportedly seeking an initial public offering (IPO) in Singapore next month to raise between US\$170m-198m. The proceeds are intended to fund expansion into new geographic markets.

**Not a direct competitor to Landune.** Our read through for Landune is that Gems TV is not a direct competitor. Key reasons are as follows:

- *Different geographic market focus* – Landune solely operates within China and intends to undertake an aggressive expansion plan within this market at both the TV shopping and retail levels. Meanwhile, Gems TV has its core operations in UK and Germany. The jewellery retailer plans to expand its operations to other countries such as the US, Japan and China. Most importantly, Gems TV plans to use Internet, and not TV, as its distribution channel in China.
- *Different product focus* – The two have significantly different product strategies. Landune is a traditional TV home shopping retailer focused on mass market products such as kitchenware, health and fitness, cosmetics, digital electronic products etc. Gems TV on the other hand is a niche player, strictly focusing on gemstone jewellery. There is no product line overlap between Gems TV and Landune.
- *Landune can broaden into jewellery sector* – Landune does not have any manufacturing capability and sources all its products from third party ODM suppliers. This allows the company flexibility to broaden into the higher-end jewellery sector at a later date should it choose. Gems TV derives its key advantage from being more vertically integrated compared to Landune, having its own gemstone design and manufacturing capabilities. An extension into the traditional product areas within China for Gems TV will be much more difficult, given the lack of sourcing power and the fundamental change in business model required.

**Landune is a pure china retail play.** In our view, Landune is more of a pure play on China's burgeoning retail industry, as well as emerging middle class, offering a significantly different investment angle to Gems TV. We project Landune's FY12/07F net profit to be between RMB114.4m to 127.7m, representing a fully diluted EPS of HK\$0.0188 to HK\$0.0205. The counter trades at an undemanding 8.3-9.0x FY12/07F P/E versus an average of 23.0x traded by comparable China retail plays and 14.3x traded by TV home shopping plays. Gems TV IPO is rumored to be offered at between 21.4x-24.7x FY6/06 P/E fully diluted. The company generated a turnover of US\$137.6m and net profit of US\$28.8m for FY6/06.

**Disclosure of interests: SBI E2-Capital acted as the sole bookrunner for the Landune top-up placement placing of 832.2m new shares at HK\$0.188 per share on 28 September 2006.**

**Table 1: Valuation comparisons – TV home shopping**

Company Name	Ticker	Country	Mkt Cap (US\$m)	Price	His. Turnover (US\$m)	His. Net Profit (US\$m)	Nxt Yr P/E (x)
GS Home Shopping	028150 KS	Korea	564.6	KW70,200	691.7	76.5	8.5
CJ Home Shopping	035760 KS	Korea	1,086.0	KW79,900	745.9	81.3	12.1
Ideal Shopping Direct	IDS LN	UK	141.2	GBp259.50	148.5	9.7	13.4
Valuevision Media	VVTV US	US	453.6	US\$12.00	691.9	(15.8)	71.4
InterActiveCorp	IACI US	US	8,802.5	US\$29.51	5,753.7	876.2	17.0
Focus Media	FMCN US	China	3,049.8	US\$58.3	68.23	23.6	24.6
Qin Jia Yuan	2366 HK	HK	141.2	HK\$2.18	13.6	8.5	9.9
Average							14.3*
China Retail							
Hongxing Sports	CHHS SP	China	437.3	SGD1.71	38.4	5.8	12.3
Hongguo	HGUO SP	China	185.6	SGD0.72	53.9	9.0	13.2
Li Ning	2331 HK	China	1,171.7	HK\$8.95	311.1	23.7	26.1
Parkson	3368 HK	China	2,052.3	HK\$28.80	143.7	31.5	28.1
Lianhua	980 HK	China	770.3	HK\$9.70	1,816.8	30.4	18.9
Wumart	8277 HK	China	1,020.9	HK\$25.4	497.4	20.9	23.4
Suning Appliance	002024 CH	China	2,284.5	RMB24.8	2,019.9	44.5	26.6
China Paradise	503 HK	China	652.6	HK\$2.08	1,554.5	36.7	42.7
GOME	493 HK	China	1,884.2	HK\$6.4	2,279.7	63.3	15.6
Average							23.0
Landune	245 HK	HK	92.2	HK\$0.17	3.0	(2.1)	8.3-9.0

\* Excludes Valuevision Media

Source: Bloomberg, SBI E2-Capital

**Table 3: Landune / Gems TV business model comparison**

	Landune	Gems TV
Sales categories		
Kitchenware	✓	
Learning	✓	
Cosmetics/slimming	✓	
Health foods	✓	
Fitness equipment	✓	
Digital electronics	✓	
Jewellery		✓
Level of vertical integration		
Manufacturing		✓
Marketing/media strategy development	✓	✓
Brand owner	✓	✓
Distribution channels	✓	✓
Operating markets	China	UK, Germany
Target markets	China	US, Japan, China
Distribution strategy in China	TV/retail	Internet
Sales channels (% of revenue)		
TV	45	81
Internet	-	18
Retail	55	-
Others	-	1
Customer base	~1,000,000	over 500,000
Historical net profit (US\$m)	7.9* (FY12/05)	28.8 (FY6/06)
P/E valuation	8.3-9.0x FY12/07F	21.4-24.7x FY6/06A
Mkt cap (US\$m)	92.2	616.2-713.7

\* Seven Star Shanghai only

Source: SBI E2-Capital