

## Scaling up air time

## China Media

### China Seven Star Shopping (245 HK, HK\$0.155)

### Not Rated

We recently undertook a roadshow in Singapore with China Seven Star's (Seven Star) management. Key takeaways are as follows:

**Name change to better reflect business.** Landune has recently changed its name to "China Seven Star Shopping Ltd." to better reflect the nature of its business.

**Migration of business successfully completed.** The company has completed the migration of the core sales operations from the "old" Seven Star into the listco at the end of November. We expect a one-month contribution for the TV home shopping and associated POS operations for FY12/06F.

**Scaling up air time.** Since completing the fund raising of HK\$150m through a top-up placement on 28 Sep 2006, Seven Star has wasted no time in utilising the funds to purchase quality additional airtime. The company has already increased its presence on satellite TV stations (which has broader reach than local/provincial stations) to 18 networks, from 10 networks prior to the fund raising. Seven Star now has presence on 35 local/provincial networks and 18 satellite networks. The company plans to further increase its presence to 25 satellite networks (including CCTV9) in FY12/07. Management aims to increase its TV ad spend by 50% YoY to around RMB300m in FY12/07F.

**Building a broad based TV home shopping platform.** At present, around 80% of the company's products sold are self-owned brands. Management expects this percentage to drop to around 60% over the next few years as Seven Star begins to build a comprehensive TV home shopping platform that will carry other brand names, similar to Korean counterparts such as CJ Home Shopping and CS Home Shopping. In this respect, Seven Star will start to distribute branded handsets from a prominent Chinese manufacturer next year. This shift in brand mix will be a key driver for the company going forward since, in our view, the TV home shopping platform can offer compelling value to brand owners with its high impact advertising and faster time-to-market.

**Logistics cost not a significant burden.** Logistics cost is not significant, accounting for only around 3% of revenues. The company has a self-owned distribution team, though it also uses both China Post and a Japanese-based logistics services provider. The breakdown between the three channels is approximately 20%/65%/15%. Delivery time typically ranges from 1-7 days, depending on the distribution channel used and account receivables: self-owned distribution (cash), China Post (45 days) and third party logistics provider (15 days).

**On the right track.** Overall, we feel positive on managements' diligence in operation execution. The migration of the TV home shopping operations was completed ahead of our expectations and it has also been aggressive in accumulating air time on satellite TV networks. The latter is particularly important given that current regulations only permit a maximum of 3 hrs of home shopping advertising per day per channel. Thus it is extremely important for Seven Star to secure a significant share of air time on the higher viewership satellite TV networks. For FY12/06F, we estimate a net profit of around RMB38.0m, assuming one-month contribution from TV home shopping operations. We project Seven Star to make a FY12/07F net profit of between RMB114.4m to RMB124.7m (fully diluted EPS: HK\$0.0188 to HK\$0.0205) with Pei Lian accounting for RMB44.0m and TV home shopping operations accounting for RMB106.5m to RMB121.2m (before deducting 30% minority interest).

**Good time to accumulate.** The counter has consolidated since the top-up placement and is presently trading at an undemanding 7.6-8.2x FY12/07F P/E. This is significantly undervalued considering that other TV home shopping plays, operating in mature markets, are trading at an average of 12.5x and China retail plays are trading at an average of 24.2x. Present levels may provide a good entry point for value investors.

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**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	643.7	KW77,800	691.7	76.5	8.6
CJ Home Shopping	035760 KS	Korea	1,016.4	KW72,600	745.9	81.3	13.1
Ideal Shopping Direct	IDS LN	UK	151.8	GBp279.00	148.5	9.7	15.1
Valuevision Media	VVTV US	US	495.9	US\$13.12	691.9	(15.8)	68.0
InterActiveCorp	IACI US	US	10,833.9	US\$36.89	5,753.7	876.2	20.6
Gems TV	GEMS SP	Sing	1,432.1	SGD1.39	137.6	28.8	16.34
Focus Media	FMCN US	China	3,525.6	US\$67.44	68.2	23.6	25.7
Qin Jia Yuan	2366 HK	HK	124.9	HK\$1.91	16.0	10.7	7.3
China Seven Star	245 HK	HK	102.5	HK\$0.155	3.0	(2.1)	7.6-8.2
<i>Average</i>							12.5*
<b>China Retail</b>							
Hongxing Sports	CHHS SP	China	492.9	SGD1.60	38.4	5.8	13.8
Hongguo	HGUO SP	China	219.4	SGD0.66	53.9	9.0	15.9
Li Ning	2331 HK	China	1,333.9	HK\$9.38	311.1	23.7	29.1
Parkson	3368 HK	China	2,572.5	HK\$28.10	143.7	31.5	34.0
Lianhua	980 HK	China	729.7	HK\$8.56	1,816.8	30.4	17.7
Wumart	8277 HK	China	1,076.4	HK\$25.0	497.4	20.9	24.0
Suning Appliance	002024 CH	China	3,697.1	RMB47.9	2,019.9	44.5	39.3
China Paradise	503 HK	China	661.7	HK\$2.03	1,554.5	36.7	29.2
GOME	493 HK	China	2,334.1	HK\$6.11	2,279.7	63.3	15.2
<i>Average</i>							24.2

\* Excludes Valuevision Media

Source: Bloomberg, SBI E2-Capital

**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.**