

## Orange Sky Golden Harvest Entertainment

### Capturing potential upside in China

#### To summarize...

- Net earnings for 1H FY12E surged 204.2% YoY to HK\$40.3m. EPS for the period increased 194.1% YoY to HK\$1.50 cents.
- Turnover for the period increased 32.0% YoY to HK\$740.8m; while gross profit increased 33.1% YoY to HK\$436.2m.
- Admission to the group's cinemas in China increased by 90.0% YoY to 3.7m in 1H FY12E. The group hiked the average ticket price to HK\$44.0.
- Up to August of this year, the group operated 34 cinemas with 248 screens in China. 11 more cinemas with 77 screens are set to be opened within the short period.
- The group's BVPS is HK\$0.58. At HK\$0.395, the group is trading at 10.9x FY11A PER and 28.2% discount to its BVPS.

**Solid interim result that net profit increased by 2 times.** Thanks to the robust growth in box office receipts, increase in other revenue and reversal of tax provisions, Orange sky Golden Harvest's net earnings for 1H FY12E surged 204.2% YoY to HK\$40.3m. EPS for the period increased 194.1% YoY to HK\$1.50 cents. Turnover for the period increased 32.0% YoY to HK\$740.8m; while gross profit increased 33.1% YoY to HK\$436.2m. Gross profit margin for the period was 58.9%, comparable to 58.4% reported for the corresponding period last year. During the period, the group recorded a net gain of HK\$4.6m for settlement of a legal dispute in respect of a lease agreement in relation to a cinema site in Hangzhou. The Group also disposed of certain equity securities and recorded a gain of HK\$7.9m during the period. As results, the group's other revenue increased 108.8% YoY to HK\$18.7m.

**Expansion as planned with rewarding performance.** The company achieved encouraging good results in China, HK and Taiwan in the latest interim.

- China.** The group's gross box office receipts generated by cinemas in Mainland China doubled compared with same period a year ago. During the period, the group opened 5 new cinemas with 38 screens in Beijing, Changzhou, Chengdu, Dalian and Xining. Admission to the group's cinemas in China increased by 90.0% YoY to 3.7m in 1H FY12E. The group hiked the average ticket price to HK\$44.0.
- HK.** Despite the closure of GH Hollywood at Diamond Hill in March 2011, the box office of the group's cinemas in Hong Kong reached HK\$93m. Excluding GH Hollywood, both the total box office receipts and admissions of the other six cinemas in Hong Kong increased by approximately 27.0% and 17.0%, respectively. Its cinema in Hong Kong recorded an admission of 1.4m and average ticket price of HK\$66.0.
- Taiwan.** The Group's 35.71%-owned Vie Show cinema circuit in Taiwan recorded 40.0% growth in both box office receipts and admissions, as Vie Show's cinemas exhibited several local Chinese-language blockbusters. The group's share of net profit for the period from Vie Show increased by 35.0% YoY to HK\$21.0m. In April 2012, Vie Show opened another cinema in Hsinchu with 8 screens at Big City, which bought its market share in Taiwan to about 43%.
- JV.** The group's 50%-owned Golden Village cinema circuit maintained its leading position with market share of 41.0%. However, its box office receipts dropped slightly by 2.5% YoY to S\$39.0m for the period, as one of its cinema, GV Jurong Point was closed down for renovation between February and April. Following the recognition of tax credit resulted from settlement of a tax dispute and reversal of tax provisions made in prior years, the group's shared HK\$25.0m of net profit from Golden Village cinema circuit for the period, same as the share reported in the corresponding period last year.

Ticker	1132 HK
Rating	Not Rated
Price (HK\$)	0.395
Target Price (HK\$)	-
12m Price Range (HK\$)	0.26-0.42
Market cap. (US\$m)	135.7
Daily t/o (US\$m)	0.1
Free float (%)	26.1

#### Financial summary

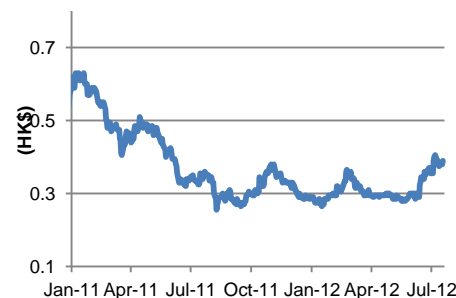
Year to Dec	10A	11A	1H 11A	1H 12A
Turnover (HK\$m)	1,077.5	1,369.6	561.0	740.8
Net Profit (HK\$m)	72.4	94.9	13.2	40.1
Diluted EPS (HK\$ cent)	2.78	3.63	0.51	1.50
Diluted P/E (x)	14.2	10.9	17.6	12.8
Diluted P/B (x)	0.8	0.7	0.69	0.67
EV/EBITDA (x)	4.2	3.7	-	-
Yield (%)	-	-	-	-
ROE (%)	5	6	-	-
ROCE (%)	7	7	-	-
N. Gear. (%)	N.Cash	N.Cash	N.Cash	N.Cash

Source: SBI E2

	12F	13F	14F
Consensus EPS (HK\$)	-	-	-
Previous earnings (HK\$m)	-	-	-
Previous EPS (HK\$)	-	-	-

#### Price performance

Year to Dec	1m	3m	12m
Relative to HSI (%)	(1.1)	25.9	33.8
Actual price changes (%)	(1.3)	31.7	29.5



Source: Bloomberg

#### Research Team

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The group's film distribution and production business recorded revenue of HK\$46 m for 1H FY12E, representing a growth of 15.0% YoY. During the period, the group distributed over 70 films in China, Hong Kong, Singapore and Taiwan. Its rich film library of more than 140 films and TV titles with perpetual distribution rights continued to generate steady licensing income to the group. Up to August of this year, the group operated 34 cinemas with 248 screens in China. 11 more cinemas with 77 screens are set to be opened within the short period. Based on lease agreements signed by the group, by the end of 2013, it is expect that the group will operate 71 cinemas with 523 screens in Beijing, Changsha, Changzhou, Chengdu, Chongqing, Dalian, Dongguan Fushun, Guangzhou, Heifei, Huizhou, Jiashan, Linyi, Maanshan, Nanning, Nantong, Shanghai, Suzhou, Tangshan, Tianjin, Wuhan, Wuxi, Xian, Xuyu, Yancheng, Yangjiang and Zhuzhou. Further, the group will open one new cinema with 6 screens at City Square Mall in Singapore in 2H FY12E.

**Valuation.** As of the end of June 202, the group was in net cash position of HK\$169.8m, consisted of about HK\$795.0m of cash, short-term bank loan of HK\$202.2m and long-term bank loan of HK\$422.8m. The group's BVPS is HK\$0.58. At, HK\$0.395, the group is trading at 10.9x FY11A PER and 28.2% discount to its BVPS.

**Table. Valuation of Peers.**

Company Name	Ticker	Biz zone	Currency	Mkt Cap (US\$m)	Last Close Price (Local)	Hist P/E	P/E Current year	1 – Yr Fwd	P/B (x)	EPS	Growth (%)
Orange Sky Golden	1132 HK	China, HK, Singapore	HKD	135.8	0.395	8.66	10.9	n.a.	0.7	0.036	28.2
SMI Corp	198 HK	China	HKD	194.4	0.187	11.47	n.a.	n.a.	0.6	0.013	(53.1)
Mei Ah Entertain	391 HK	HK	HKD	94.7	0.131	n.a.	n.a.	n.a.	1.2	0.010	(6.6)
Media Asia	8075 HK	HK	HKD	106.2	0.063	n.a.	n.a.	n.a.	n.a.	(0.019)	n.a.
Bingo Group	8220 HK	HK	HKD	46.9	0.06	n.a.	n.a.	n.a.	2.8	(0.053)	n.a.
Huayi Brothers	300027 CH	China	CNY	1,535.9	16.2	40.18	29.89	21.77	5.8	0.410	39.1
BONA File Gr-adr	BONA US	China	USD	331.4	5.45	20.19	15.84	12.67	0.9	3.814	n.a.
Carmike Cinemas	CKEC US	US	USD	211.4	11.89	9.22	12.61	9.69	3.7	(4.671)	39.8
Cinemark	CNK US	US	USD	2,676.1	23.29	15.53	14.78	13.03	2.6	8.952	(11.5)
Regal Entertai-A	RGC US	US	USD	2,129.9	13.71	16.52	15.22	14.77	n.a.	2.024	(49.0)

Source: Bloomberg

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**STRONG BUY** : absolute upside of >50% over the next three months

**BUY** : absolute upside of >10% over the next six months

**HOLD** : absolute return of -10% to +10% over the next six months

**SELL** : absolute downside of >10% over the next six months

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