

GDC: No surprises in 3Q results

Recommendation: BUY (unchanged)

China Media

Price	HK\$2.65	Year to Net profit	EPS	EPS	P/E	P/B	EV/EBITDA	Yield	ROE	ROCE	N. Gear.
Target price	HK\$3.95 (+52%)	Dec	HK\$m	HK\$	Δ %	x	x	x	%	%	%
12 mth range	HK\$0.20-3.70	05A	(76.4)	(0.095)	42.4	na	na	na	-	na	na
Market cap.	US\$439.8m	06A	(30.2)	(0.038)	60.4	na	na	na	-	na	na
Daily t/o, 3 mth	US\$1.08m	07F	46.6	0.050	na	53.5	na	66.4	-	14.5	9.3
Free float %	34.4%	08F	152.1	0.116	135.0	22.8	71.0	16.4	-	20.0	14.0
Ticker	8271.HK/8271 HK	09F	260.7	0.200	71.4	13.3	11.2	9.7	-	19.8	14.8

Relative to Hang Seng Index (1 mth, 3 mth, 12 mth): -3.4%, -3.1%, +666.2%

Actual price changes (1 mth, 3 mth, 12 mth): -5.2%, -6.6%, +1,063.6%

Consensus EPS (07F-08F): HK\$0.050, HK\$0.113

Previous forecasts (07F-09F): HK\$46.6m (\$0.050), HK\$147.6m (\$0.113), HK\$256.0m (\$0.196)

Key points:

- As expected, the company returned to the black in 3Q FY12/07A with a net profit of HK\$2.2m, reversing a loss of HK\$4.3m a year ago.
- Rollout of digital cinema network is gathering pace after the initial familiarization period. Company targets to have around 600 sets installed by end of 2007.
- GDC increased stake in GDC Tech subsidiary to 62.4% from 51.1%, showing the management's confidence in the growth prospects from the digitalization of cinemas worldwide.
- Acquisition of Shougang GDC Media Holdings has been completed giving GDC a legal entity to operate its digital cinema network in China.
- Maintain BUY with a target price of HK\$3.95, representing 34.0x FY12/08F P/E.

No surprises in 3Q results. GDC's 3Q FY12/07A results contained no surprises. Revenue was up 66.9% YoY at HK\$26.5m with net profit at HK\$2.2m, reversing a HK\$4.3m loss a year ago. We detailed in our report "Range bound near term" (issued on 4 Oct) that there would be a delay in the ramp up in digital cinema solution sales. Also, we did not expect any contribution from GDC's digital cinema network in China as the company is still rolling it out.

Table 1: 3Q results

Three months to Sep	Turnover (HK\$m)	Gross profit (HK\$m)	Gross margin (%)	Pre-tax profit (HK\$m)	Tax rate (%)	Net profit (HK\$m)	EPS (HK\$)	DPS (HK\$)
3Q FY07	26.5	14.7	55.5	3.9	-	2.2	0.17	-
3Q FY06	15.9	7.3	45.7	(4.3)	-	(4.3)	(0.53)	-
YoY (%)	66.9	102.7		n/a	-	n/a	n/a	-

Source: Company data

CG creation to remain mainstay in FY12/07. GDC's CG creation and production segment remains the company's key revenue driver, in line with past quarters. Segmental revenue was HK\$16.5m, up 78.3% YoY and accounted for 62.3% of the total. The company is currently conducting CG outsourcing services on the CG animation titles including "Bratz" and "Ben & Izzy".

Solutions sales slightly above expectations, but ramp up will be next year. During the period, GDC installed networked digital signage solutions to new customers in Asia, including shopping malls in Singapore, generating sales of HK\$7.1m, up 89.0% YoY and 85.3% QoQ. Though most of the sales ramp up in this segment will occur next year, as the worldwide digitalization of cinemas gathers pace, we were pleasantly surprised that the company has been working diligently to solidify its customer base during this time by selling its in-theatre solutions.

Stepping up digital cinema rollout in China. After the familiarisation period, GDC has begun to streamline

its digital cinema solutions assembly and installation process in China. The company is now able to assemble in excess of 50 systems per week from its base in Shenzhen. Management indicates that they have installed over 200 sets of digital cinema network equipment in China and targets to install 600 by year-end (down from the 700 originally planned). This is in line with our expectations.

GDC increases stake in subsidiary GDC Tech. GDC has recently raised its equity stake in subsidiary GDC Tech to 62.4% from 51.1% through subscription of 53.4m new shares at HK\$2.0 each (total consideration of HK\$106.8m). GDC Tech is its key subsidiary responsible for the sale of digital cinema solutions. The move is positive as it shows the management's confidence in the future prospects of digitalization of cinema worldwide and GDC Tech's ability to capture this opportunity.

Acquisition of Shougang GDC Media Holdings completed. The company has completed the acquisition of 100% interest in the issued share capital of Shougang GDC Media from Shougang Holding, the parent of 50.76% majority shareholder Shougang Concord Grand (730 HK, HK\$0.69, NR). Shougang GDC Media's sole asset is its right to participate in 49% interest in PRC Media JV, which will be principally engaged in the deployment and operation of a digital cinema network in China.

Maintain BUY call and target price HK\$3.95. We leave our net profit FY12/07F estimate unchanged at HK\$46.6m but revise up our FY12/08F and FY12/09F estimates to HK\$152.1m to HK\$260.7m, respectively, to take into account the lesser minority interest payments from the increased stake in GDC Tech. We maintain our BUY call on GDC with a target price of HK\$3.95, representing 34.0x FY12/08F P/E. Without significant near-term catalysts, the stock is likely to trade range bound in the near term.

Table 2: P&L

Year to Dec (HK\$m)	05A	06A	07F	08F	09F
Turnover	32.2	54.9	104.6	962.3	1,243.1
Cost of sales	(34.8)	(30.1)	(73.8)	(608.0)	(755.9)
Allowance for production work in progress	(24.7)	-	-	-	-
Gross profit	(27.4)	24.8	30.9	354.3	487.2
Other income and gains	0.6	1.1	12.0	15.0	16.5
Selling and distribution costs	(2.0)	(6.5)	(13.0)	(101.0)	(111.1)
Administrative expenses	(37.4)	(38.4)	(9.6)	(54.4)	(59.8)
Impairment losses recognized in respect of PPE	(2.4)	-	-	-	-
Finance costs	(7.7)	(13.1)	(11.0)	(13.2)	(15.8)
Exceptionals	-	1.8	40.3	-	-
Profit/(loss) before taxation	(76.2)	(30.2)	49.5	200.7	316.9
Taxation	(0.2)	-	(1.5)	(21.7)	(28.4)
Profit/(loss) after tax	(76.4)	(30.2)	48.0	179.0	288.6
Minority interests	-	-	(1.4)	(26.9)	(27.8)
Profit/(loss) attributable to shareholders	(76.4)	(30.2)	46.6	152.1	260.7
% chg	41.8	60.5	-	135.0	71.4
Dividends	-	-	-	-	-

Source: SBI E2-Capital, company data

Disclosure of interests: SBI E2-Capital Securities Ltd. acted as the sole bookrunner and placing agent for the GDC top-up placement of 72.0m shares at HK\$2.70 each on 4 July 2007.

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