

China cinema network rollout slowed

China Media

GDC (8271 HK, HK\$2.45)

BUY (unchanged)

Target price: HK\$3.60 (+51%)

Key takeaways from our recent meeting with the management of GDC:

China network rollout slowed. GDC plans to install 400 sets of digital cinema solutions by end-2007 and 2,000 by end-2008, compared with original targets of 600 sets by end-2007 and 2,000 by Jun 2008. The company has already secured agreements with various cinema operators to install over 580 digital cinema solutions in China.

Target to install 200 sets in Dec 2007. The company is now on pace to install around 200 sets in December. The slower-than-expected rollout in the previous months was the result of: 1) slower production ramp up and delivery of projectors from its European partner Barco and 2) testing and commissioning of the installed digital cinema systems taking longer than expected. All of these issues have now been resolved and the company plans to install between 150-200 sets of digital cinema equipment in China per month.

CG animation capacity build-out planned. The company currently has around 62 hours of CG animation production capacity, mostly based out of Shenzhen. To meet demand, it plans to double this capacity in 2008 by setting up a new studio in Chongqing. With its highly reputed CG animation training business, we expect GDC to have a good talent base to source their animators as part of the build out.

Earnings estimates cut. We have cut our P&L estimates in light of the slower pace of GDC's digital cinema solutions rollout in China. We now forecast the company's net profit at HK\$45.7m in FY12/07F and HK\$139.3m in FY12/08F.

New target price at HK\$3.60. Our new target price for the counter is HK\$3.60 (previously HK\$3.95), maintaining our 34.0x FY12/08F P/E valuation, against a downward revision in earnings estimates.

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.

Table 1: Financial summary

Year to	Net profit	EPS	EPS	P/E	P/B	EV/EBITDA	Yield	ROE	ROCE	N. Gearing
Dec	HK\$m	HK\$	Δ %	x	x	x	%	%	%	%
05A	(76.4)	(0.095)	42.4	na	na	na	-	na	na	na
06A	(30.2)	(0.038)	60.4	na	na	na	-	na	na	na
07F	45.7	0.049	na	49.0	na	267.1	-	14.5	9.3	614.4
08F	139.3	0.107	119.5	22.3	88.8	16.1	-	20.0	14.0	123.1
09F	258.7	0.198	85.7	12.0	10.6	8.7	-	19.8	14.8	Cash

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