

## Media

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Hong Kong / Media

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### HKTV – The Election is coming

HKTV (1137 HK, NR) reported sharp decline in net loss in 2H14 and we estimate that cash-burn at operating level has also been reduced significantly. The company will be launching its app-base TV service in mid-Nov and is building up its program library with the latest addition of a TV series “The Election”, which is based on a controversial story line along the election of the Chief Executive of Hong Kong. We believe its program can successfully catch eyeballs but have reservation on the integrated TV-e-commerce platform.

#### Loss narrowed in 2H14 and cash-burn reduced

HKTV's 2H14 net loss narrowed significantly to HK\$43m, from a net loss of HK\$120m in 1H14, as the company cut cost aggressively. Based on the disclosure in the results announcement, we estimate that cash outflow for the full year to be about HK\$285m, down 13% from FY13. However, FY14 outflow included the HK\$158m acquisition of HK Mobile TV, excluding which, operating cash outflow is estimated at HK\$128m, down 60% YoY.

#### The Election is coming

In order to further strengthen its program library, the company has started shooting a new TV series “The Election”, featuring Ms. Angelica Lee (李心洁) and Mr. Liu Kai Chi (廖启智) on a controversial story line along the election of the Chief Executive of Hong Kong. We believe the controversial nature of this new addition to the program library should be able to grab eyeballs, particularly when the time for the next real election will happen in less than 3 years.

#### A lower implied valuation

Based on latest information from the results, particularly on the lower cash-burn rate, we estimate net cash balance will fall to HK\$1.4bn by FY17, or about 65% of current market cap. Excluding this from the market cap, the EV of HKTV would be HK\$768m, which implies somewhat more conservative profit margin and market share range assumptions (5-15% for margins and 10-30% for market share) vs those of our last report dated 7 Oct 2014. We have reservation on the integrated TV-e-commerce platform as the success of which requires significant change in consumer behavior.

#### ATV's license renewal a big wild card

The outcome of ATV's license renewal, including the potential change of its ownership, will be a big swing factor. Acquiring ATV will give HKTV access to terrestrial broadcasting, which has much wider coverage than its present app-based platform. However, change in major shareholders of broadcasters require government approval and we believe any potential M&A between the two would not be a smooth process. NOW-TV of PCCW (8 HK, NR) and i-Cable (1097 HK, NR) are also potential candidates for ATV's license.

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# 媒体

香港/媒体

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## 香港电视 - “选战” 即将来临

香港电视(1137 HK, 未评级) 公佈在 2014 财年净亏损大幅下滑, 我们估计经营水平的现金流出也显著减少。该公司将在十一月中推出以应用程序为基础的电视服务, 并为其节目库加入最新的电视剧“选战”。该剧是基于有争议性的香港行政长官选举故事为题材。我们相信它的节目可以顺利吸引观众, 但对其电视电子商务集成平台则有保留。

### 2014 下半年亏损和现金流出显著收窄

香港电视积极削减成本, 该公司 2014 财年下半年净亏损显著收窄至港币 4,300 万元。上半年亏损为港币 1.2 亿港元。基于在业绩公告中披露的数据, 我们估计现金流出约为港币 2.85 亿港元, 同比下降 13%。然而, 2014 年净出现现金包括用于收购香港移动电视的港币 1.58 亿元, 扣除这一一次性项目, 经营现金流出估计为港币 1.28 亿元, 同比下降 60%。

### “选战” 即将来临

为了进一步加强其节目库, 公司开始摄制一套由李心洁女士和廖启智先生主演的新电视剧“选战”。该剧是基于有争议性的香港行政长官的选举故事为题材。我们相信这争议性的节目可以吸引观众, 尤其是当下一个真正的选举将在 3 年以内发生。

### 较低的隐含估值

根据刚公佈的业绩数据, 特别是较低的现金流出量, 我们估计净现金余额将在 2017 财年结束时下降至港币 14 亿, 佔目前市值约 65%。从市值剔除这净现金余额, 香港电视的企业价值为港币 7.68 亿。基于第 4 页的附表, 港币 7.68 亿的企业价值隐含着相对上一次的 10 月 7 日的报告较为保守的利润率和市场份额的假设(利润为 10-30% 而市场份额为 5-15%)。我们对于其电视电子商务集成平台有所保留, 因成功的关键为消费者行为有显著变化。

### 亚视续牌是很大的不确定因素

亚视续牌的结果和其潜在的股权变化将是一个很大的不确定因素。收购亚视会给香港电视进入地面广播, 使其有比目前应用平台更广的覆盖范围。但广播公司的大股东变更需要政府的批准, 我们相信在两者之间的任何潜在并购并不会是一个很畅顺的过程。电讯盈科的 NOW 电视(8 HK, 未评级) 和有线宽频(1097 HK, 未评级) 也是在这方面潜在的候选者。

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## The Election is coming

### Loss narrowed in 2H14 on aggressive cost cutting

HKTU (1137 HK, NR) reported HK\$163m of loss for FY14 (FY ends 31 Aug) on HK\$1.4m of revenue as, technically, the company has not started business yet. The company had operating loss of HK\$245m with other income and gains of HK\$120m, which mainly comprised of interest income (HK\$109m). The company also booked finance cost of HK\$6m and impairment loss of HK\$32m. Operating loss in 2H14 was HK\$97m, narrowed markedly from HK\$148m in 1H14 as the company cut cost aggressively - staff size was cut by 134 since mid-year to 283, after a reduction of 110 in 1H14. Net loss in 2H14 was HK\$43m, down 64% sequentially, which was partly due to an impairment loss of HK\$32m in 1H14, excluding which, adjusted net loss fell by 50% HoH.

### Significant reduction in cash-burn

Based on the disclosure in the results announcement, we estimate that cash outflow to be about HK\$285m, down 13% from FY13. However, FY14 outflow included the HK\$158m acquisition of HK Mobile TV, excluding this one-off item, operating cash outflow is estimated at HK\$128m, down 60% YoY.

### "The Election" is coming

In order to further strengthen its program library, the company has started shooting a new TV series "The Election" in July, featuring Ms. Angelica Lee (李心洁) and Mr. Liu Kai Chi (廖启智) on a controversial story line along the election of the Chief Executive of Hong Kong. While this new addition to its library may make the company's latest attempt to apply for a free TV license even more politically sensitive, we believe the controversial nature of it will be able to grab eyeballs, particularly when the time for the next real election will happen in less than 3 years.

### A lower implied valuation

At the end of FY14, net cash stood at HK\$1.9bn. If we use annual cash-burn assumption of HK\$250m (ie ~2x FY14 level) for FY15 and FY16, as opposed to our previous assumption of HK\$400m/year, and the same assumption of cash-flow breakeven in FY17, the company's net cash balance will fall to HK\$1.4bn by FY17, or about 65% of current market cap. Excluding this from the market cap, the EV of HKTU would be HK\$768m. Using the table on p.4, which is based on the same assumptions on our last report "Media: HKTU - David vs Goliath, round 3" dated 7 Oct 2014, the HK\$768m EV of the company implies more conservative profit margin and market share ranges (5-15% for margins and 10-30% for market share) vs the last report (10-15% for margins and 20-30% for market share). Further upside would likely be coming from better than these implied performance parameters and/or additional revenue from online shopping.

### The integrated TV-e-commerce platform may not work as smoothly as expected

While we believe good market response to previews of its programs earlier bode well for its TV service launch, we have reservation on the integrated TV-e-commerce operation. Portable devices changed consumer's behavior markedly and drained viewership from traditional TV globally, but we believe doing online shopping while watching TV series, even during commercial breaks, may not work as smoothly as expected. Typical viewers do not usually like commercial breaks and the interruption that typical online transactions would take will be an added barrier. While we would not write this off entirely, as consumers did change their behavior to cope with technology innovations, we believe advertising revenue will remain the primary source of revenue for the company in the initial phase of service launch, which, based on the results announcement, is scheduled in mid-Nov.

### ATV's license renewal a big wild card

According to Hong Kong's Communication Authority (CA), the free-to-air terrestrial TV licenses of TVB (511 HK, NR) and ATV will expire on 30 Nov 2015 and the renewal process already started in Feb 2014. The CA should make recommendation to the Chief Executive before 30 Nov 2014. While ATV is in financial difficulty and up for sale and that we believe HKTU should be interested in acquiring it, the change in major shareholders of broadcasters requires government approval and, given what HKTU experienced in its free-TV license application earlier, any potential M&A between the two would not be a smooth process. Although we believe the government will maintain a competitive landscape in the terrestrial TV segment, other free-TV licensees such as NOW-TV of PCCW (8 HK, NR) and i-Cable (1097 HK, NR) are potential candidates if the government to renew ATV's license. If HKTU acquires ATV, it would be a big plus to the former broadcasting will greatly enhance coverage and market reach vs an app-based platform an even stronger contender to TVB. However, we believe the chance of having this scenario materialized should be quite low.

### Assumptions

2017 market size of HK\$4bn

Figure 1 Scenario analysis

#### Net profit sensitivity (HK\$m)

		Net profit margin				
		5%	10%	15%	20%	25%
Market share	10%	20	40	60	80	100
	20%	40	80	120	160	200
	30%	60	120	180	240	300
	40%	80	160	240	320	400
	50%	100	200	300	400	500

#### Valuation sensitivity (HK\$m)

PE		Net profit margin				
12.0		5%	10%	15%	20%	25%
Market share	10%	240	480	<b>720</b>	960	1,200
	20%	480	<b>960</b>	1,440	1,920	2,400
	30%	<b>720</b>	1,440	2,160	2,880	3,600
	40%	960	1,920	2,880	3,840	4,800
	50%	1,200	2,400	3,600	4,800	6,000

Source: Guosen Securities(HK) Research

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**Neutral:** A return potential ranging from -10% to 10% relative to overall market within 6 – 12 months.

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