



Rating  
**Buy**

Asia  
China

Consumer  
Hotels / Leisure / Gaming

Company  
**Focus Media**

Reuters 002027.SZ    Bloomberg 002027 CH    Exchange SHZ    Ticker 002027

Date  
15 September 2017

Initiation of Coverage

Price at 14 Sep 2017 (CNY)	9.72
Price target - 12mth (CNY)	14.00
52-week range (CNY)	13.43 - 7.59
HANG SENG INDEX	27,894

## Differentiated ad leader riding on new consumption growth

### Growth correlated to the new economy

We initiate coverage of Focus Media with a Buy rating and a target price of RMB14, implying 35% upside potential. Focus Media has recently been included in the MSCI-A and is a leading player in China's ad industry with dominant market share in two channels of advertising: (1) inner building media (90%), and (2) cinema screens (pre-movie advertising). Compared to traditional channels of advertising, such as TV etc, these two channels achieve greater impact, given they are in confined areas holding the captive attention of viewers. These channels are favored by leading internet/FMCF clients, such as JD, Ali, Baidu, and P&G etc, which contribute approximately 50% of FM's revenue. We view FM as well-positioned to ride the growth of China's new economy. We project a profit CAGR of 20% against peers' 10-15%.

### Inner building media, the only growing traditional advertisement channel

While the growth of other traditional advertisement channels, such as TV/radio/newspapers, has dropped in the past few years, we have seen building media growth remain robust. This is because, amid the intensifying competition from growing internet advertising, building media is more effective in delivering the message to targeted groups of consumers and raising overall brand awareness. Focus Media dominates the building media market, with market share of more than 90%. We expect inner building segment revenue to generate a CAGR of 16% in 2017-19E, driven by c.12% screen expansion and a 4% increase in ASP. We believe Focus Media's screens (both LCD and poster frame) will continue to penetrate into tier 2-3 cities and the company can increase the utilization rate of its screens.

### Cinema media, riding on China's movie screen growth

Focus Media has 60% market share in theater advertisements (ads before the movie) in China. We have noticed robust growth in this segment in the past few years (65%/42%/51% yoy revenue growth in 2014-2016), thanks to significant growth in China's movie screens, which have doubled to more than 40,000+ from only 20,000 in 2014. As this segment is correlated with the movie screen expansion, we estimate that cinema media revenue CAGR to be 13% in 2017-19E, in line with our estimate of overall movie screen growth.

### Valuation and risks

Our primary valuation method is based on DCF (9.8% WACC and 3% TGR). Focus Media is currently trading at an ex-cash PER of 18x (the company has a net cash of RMB7.54bn as of 1H17) on our 2018E earnings estimate vs. its 20% three-year

### Valuation & Risks

Tallan Zhou

Research Analyst  
+852-2203 6464

Karen Tang

Research Analyst  
+852-2203 6141

### Price/price relative



Performance (%)	1m	3m	12m
Absolute	6.0	-3.7	-4.2
HANG SENG INDEX	2.4	7.8	20.3

Source: Deutsche Bank

### Key indicators (FY1)

ROE (%)	60.4
Net debt/equity (%)	-56.9
Book value/share (CNY)	0.80
Price/book (x)	12.1
Net interest cover (x)	-
Operating profit margin (%)	44.6

Source: Deutsche Bank



earnings CAGR. We believe the risk-reward profile seems attractive. Key downside risks: 1) more theaters start their own advertisement businesses; 2) threats from other advertising modes; 3) a slowdown in the China movie downstream industry; and 4) slowdown in the internet/FMCG sector growth.

Forecasts and ratios					
Year End Dec 31	2015A	2016A	2017E	2018E	2019E
Sales (CNYm)	8,627.4	10,213.1	11,793.9	13,584.9	15,663.9
EBITDA (CNYm)	3,510.2	4,289.7	5,374.3	6,451.6	7,750.6
Reported NPAT (CNYm)	3,389.1	4,451.2	5,369.0	6,335.4	7,485.3
Reported EPS FD(CNY)	0.45	0.52	0.44	0.52	0.61
DB EPS FD(CNY)	0.45	0.52	0.44	0.52	0.61
OLD DB EPS FD(CNY)	-	-	-	-	-
% Change	-	-	-	-	-
DB EPS growth (%)	-94.4	16.9	-15.6	18.0	18.2
PER (x)	17.2	20.9	22.1	18.8	15.9
EV/EBITDA (x)	15.7	20.8	21.1	17.3	14.1
DPS (net) (CNY)	0.14	0.42	0.35	0.41	0.49
Yield (net) (%)	1.9	3.8	3.6	4.3	5.0

Source: Deutsche Bank estimates, company data



# Capturing China's leading consumption trend

## Outdoor channel mix is increasing

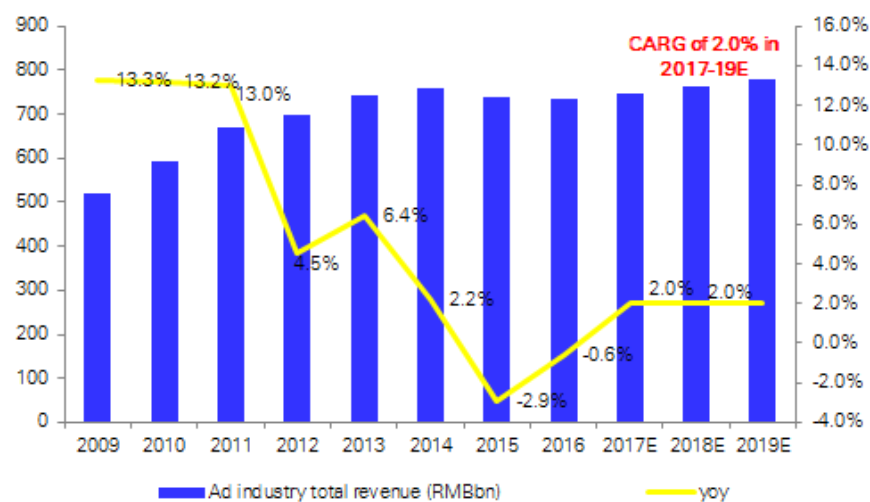
We have noticed that the advertising industry has remained flattish for the past three years, as shown in the table below, and we forecast the industry will keep a 2% CAGR for the next 3-4 years.

However, the advertising channel mix has changed significantly over the past five years. As shown in the chart below, traditional channels for advertising expenditure have shifted significantly from traditional ones, such as TV/newspapers/radio, etc, to outdoors (16.2% in 2016, including building LCD and frame posters) or the internet.

Internet advertising revenue showed an average of c. 20% yoy growth for the past four years. If we break down the internet channel, the mobile channel has surged significantly in recent years. It seems that more users prefer mobile terminals and, as a result, the percentage of internet advertising expenditure on mobile terminals, as a percentage of the total, has risen to more than 50%, from only 6% in 2009.

On the other hand, as shown in Figure 3, revenue of inner building LCD/poster frame and cinema media (where Focus Media is focused) also enjoyed growth of c. 20% and c. 50%, respectively, for the past four years.

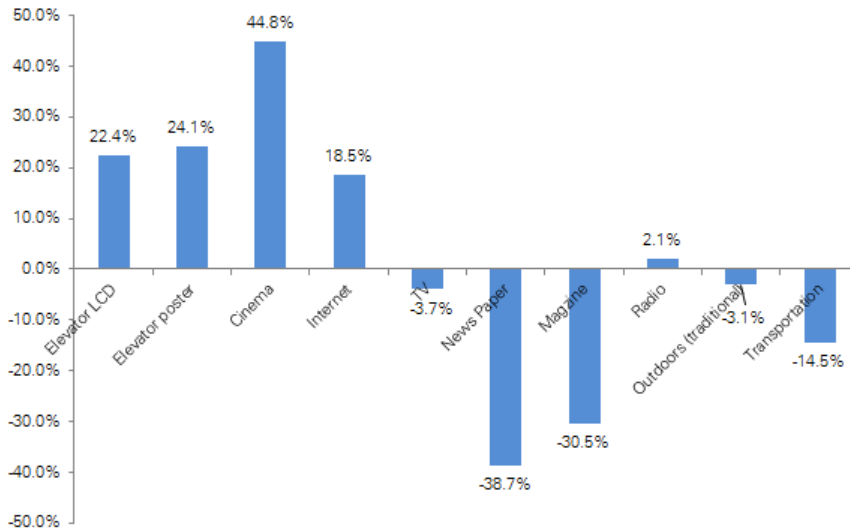
Figure 1: China advertising industry total revenue, 2009-2019



Source: CTR insight, Deutsche Bank

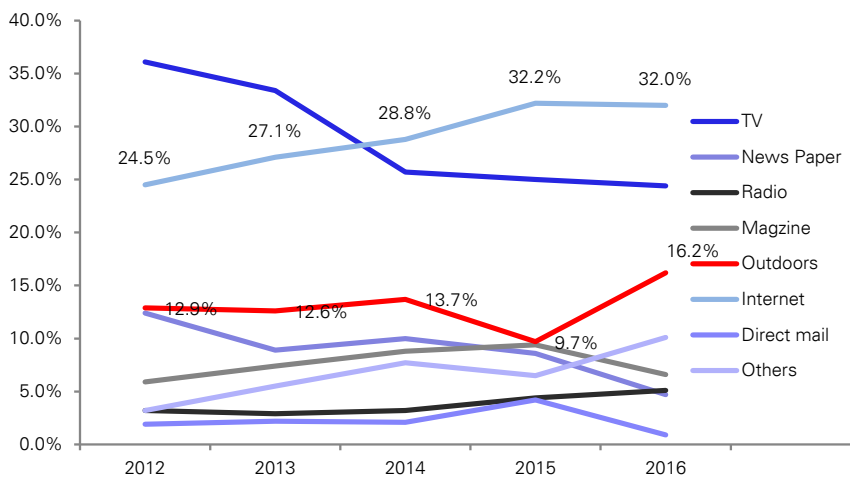


Figure 2: 2016 Advertisement channel revenue yoy growth



Source: CTR insight, Deutsche Bank

Figure 3: Advertisement channel mix change, 2012-16



Source: Deutsche Bank, Entgroup Data

## Focus Media, inner building and cinema media

Focus Media operates two types of channels for advertisements: 1) inner building advertising, and 2) cinema advertising.

- Inner building channel: Focus Media operates two types of advertisement vehicle inside residential and business buildings in China: 1) LCD display and 2) poster frames.
- Cinema channel: Focus Media operates pre-movie advertisements in more than 1,610 cinemas across China with more than 10,000 movie screens.



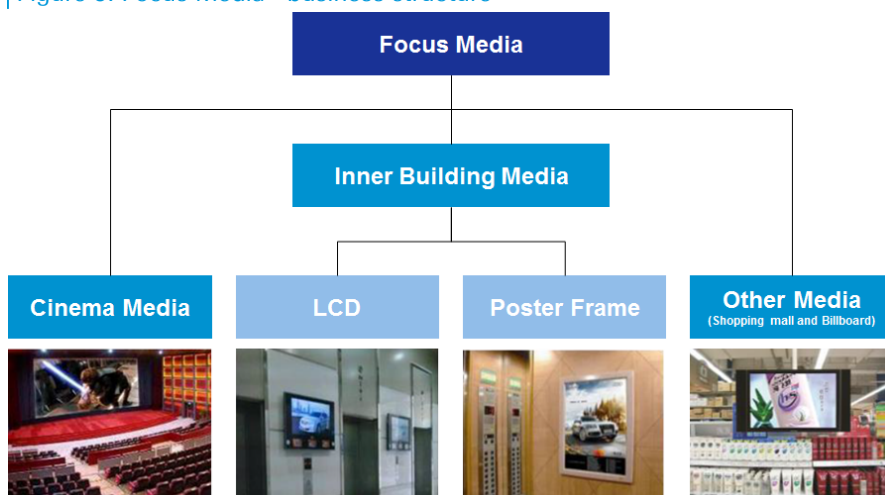
- Other channel: mainly LCD displays in major supermarkets/hypermarkets in China.

Figure 4: Focus Media - summary of its channel, product, network and customers

Channel	Product		Number of display	Network by cities	Key customers
	1. LCD display	Self-owned	225,000	90	Alibaba, Tencent, JD, P&G, Uniliver, BMW
		Franchised	11,000	31	
Inner building	2. Frame poster	Self-owned	1,158,000	48	
		Franchised	328,000	61	
Cinema	Pre-movie advertisement		more than 10,000 theater screens	290	
Supermarket	LCD display		54,000	na	

Source: Company data, Deutsche Bank

Figure 5: Focus Media - business structure



Source: Company data

### Business model, upstream and downstream

**Upstream** - The upstream of Focus Media is the supplier of media resources namely: 1) property management companies for office/apartment buildings and 2) cinemas. Focus Media rents resources from those buildings/cinemas at a fixed rent.

- Property management** - As property management companies are generally small and dispersed, Focus Media mainly focuses on mid-to-high-end residential or business buildings in tier 1-2 cities to guarantee their advertising exposure to potential targeted high-end clients.
- Cinema** - From 2010 to 2014, the number of cinemas in China increased from 2,000 to 8,878 and the number of screens increased from 6,256 to 41,179 from 2014 to 2015. In the coming years, we believe the growth of urban cinemas will slow down but will still enjoy double-digit growth (CAGR of c. 12% during 2017-19E).

**Downstream** - The downstream of Focus Media is the advertiser, who is the client. Key clients of Focus Media are mainly from the internet/FMCG/Homecare etc, as listed in the table below.



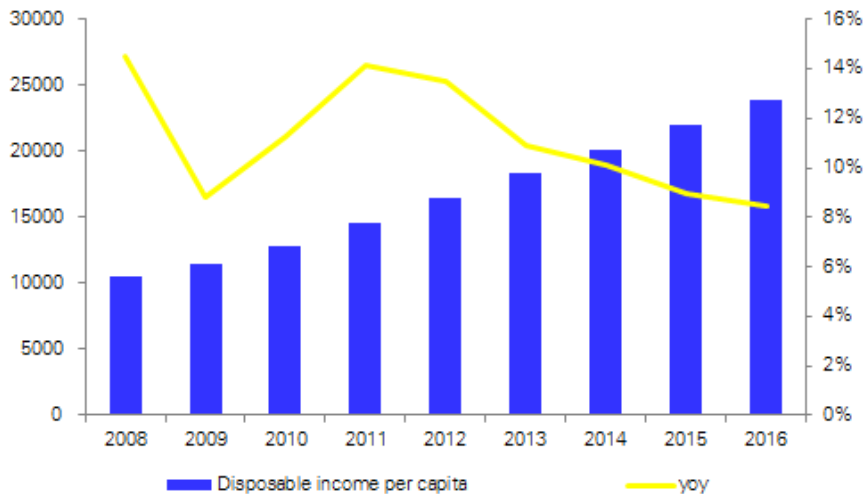
Figure 6: Key clients of Focus Media

Industry	Brands				
<b>Auto</b>	BMW / Mercedes-Benz / Peugeot / Honda / KIA / Shanghai GM / Jaguar / Land Rover / Chrysler				
<b>Telecom</b>	China Unicom	China Telecom	China Mobile		
<b>Beverage</b>	Mengniu Dairy	Bein Mate	Wyeth	Evergrande Spring Dumex	
<b>Tech</b>	Lenovo	Canon	BBK (步步高)	Samsung	Xiaomi
<b>Homecare</b>	P&G	Unilever	L'OREAL	Liby	INOHERB MG
<b>Internet</b>	Taobao	Tencent	JD	Ctrip	Tuniu

Source: Company data

- **FMCG sector** - For a long time, the industries that spend a large amount of money on advertising have been home-care products, food & beverages, pharmaceuticals.
  - In recent years, disposable income per capita has substantially increased, as shown in the chart below.

Figure 7: China Disposable income per capita, 2008-2016

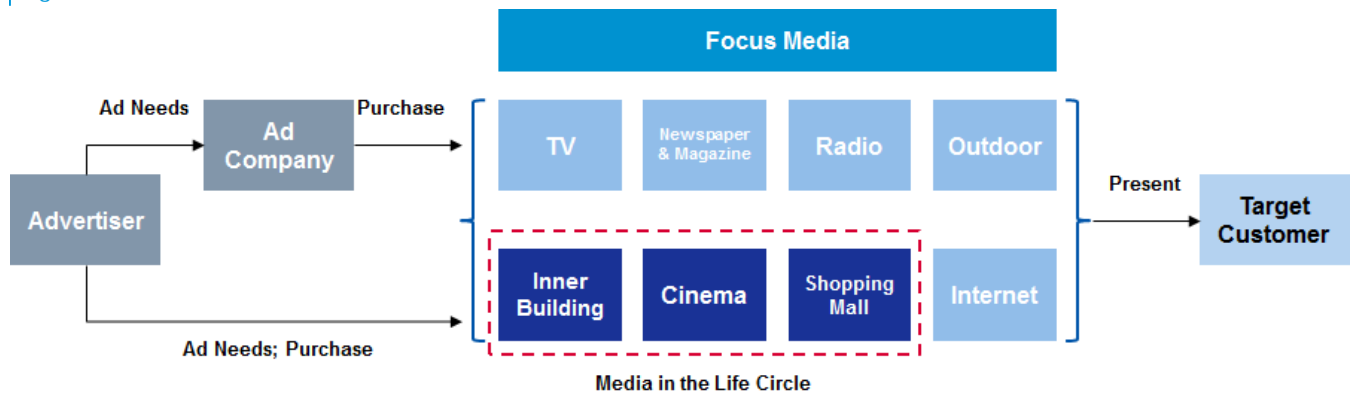


Source: State Statistical Bureau

- In the meantime, brand recognition among consumers has also largely improved.
  - Therefore, industries with large advertising budgets maintain or even increase their advertising spending every year.
- **TMT sector** - On the other hand, the advertising amount from Internet companies has also significantly increased. This is mainly driven by: 1) the rapid development of the Internet (especially mobile Internet), 2) the increasing popularity of e-commerce, 3) the explosive growth of different kinds of mobile phone apps, and 4) the intensifying competition among internet enterprises. Advertising plays an increasingly important role in establishing brand image and promoting products' function.



Figure 8: Focus Media - Business model overview



Source: Company data

Figure 9: Focus Media's types of advertisement products

Media Type	Main sales model
<b>Inner Building</b>	
LCD	Commercials are usually played by 60 times or 30 times everyday
Interactive Screen	Three or four screens interacting
Poster Frame 1.0	Every frame 1.0 is a client spot and every week is a period. Commercials are post starting from Saturday to Friday.
	Free Combo: Every frame 2.0 includes several client spots and every week is a period. Commercials are post in turn starting from Monday to Saturday.
Poster Frame 2.0	City Combo: Clients can choose which city to post. Every city includes bunch of frame 2.0, Every frame 2.0 includes several client spots and every week is a period. Commercials are post in turn starting from Monday to Saturday.
	Sunday Combo: frames (post on every Sunday) are assigned by Focus Media. Clients can choose up to 20 posters played on every frame and 5/10/15/20/25/30 seconds for each poster.
<b>Cinema Media</b>	Clients can choose which city to post. Every 15 seconds is the basis. Client can also choose 30/60 seconds as long version or 5/7.5/10 seconds as short version. Commercials are played in turn starting from Thursday to Wednesday.

Source: Company data



# Building media, dominant position in China

## A much more efficient channel

Focus Media's advertising channel is mainly residential and business building media in tier 1 and tier 2 cities in China. LCD displays and poster frames are installed inside a lift or on the wall of a lift waiting area. According to data from EntGroup, Focus Media dominates the lift LCD/poster frame media market with market share of 95%/73%. In addition, the company also leads the cinema media by 60% market share as of 2016.

### Question 1, why choose the lift as the advertisement channel?

There are several competitive advantages in casting advertisements in the lift of residential/business buildings compared with other types of advertisement channels.

- The lift is a confined space with limited telecom signals.
- Most people will have to spend 2-5 minutes inside the lift.
- Focus Media specifically chooses premium/new residential or business models in tier 1-2 cities to guarantee their potential targeted clients who have the consumption power.
- This makes Focus Media's posters more effective in penetrating the right individual customers and increases the efficiency for their advertising clients.

### Question 2, who are the clients looking for Focus Media?

As we illustrate in the table below, Focus Media's major clients are from sectors such as the internet and FMCG. Key clients include Alibaba, Taobao, and P&G, etc. Internet and FMCG's total revenue contribution is 40-50% in 2015-2016, as shown in the table below.

Figure 10: Focus Media's key customers for illustration

Key customers	Advertisement type	Contract amount (RMB million)
Alibaba	阿里巴巴 Poster frame	264.8
P&G	宝洁 LCD display	200.0
Taobao	淘宝 LCD display & Poster frame	199.8
ele.me	饿了么 LCD display & Poster frame	148.0
Yihai Kerry	益海嘉里食品 LCD display & Poster frame, hypermarket media	132.3

Source: Company report





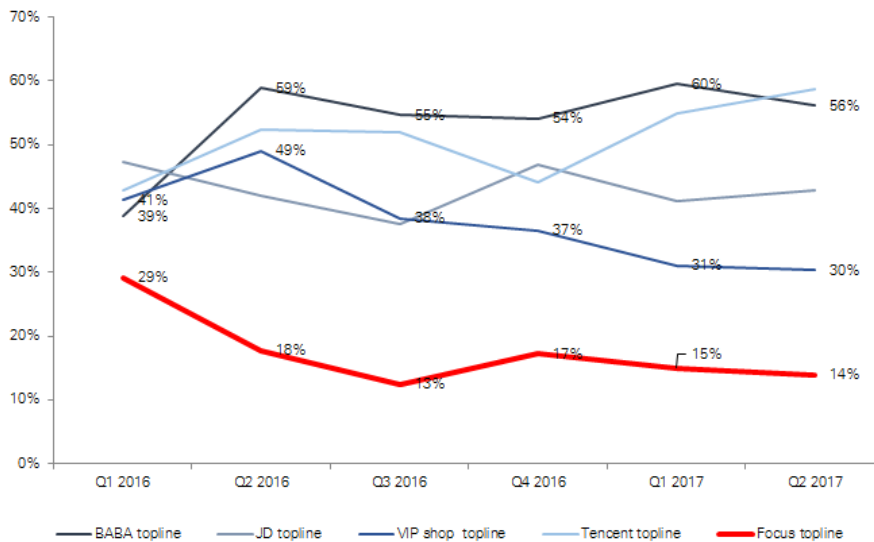
Figure 11: Focus Media, advertisement breakdown by segments, 2016 and 2015

Sectors (RMB million)	2016 % of total		2015 % of total		2016 yoy
Internet	2,639.8	26%	2,077.4	24%	27%
FMCG	2,083.6	20%	2,132.6	25%	-2%
Transportation	1,395.0	14%	1,397.0	16%	0%
Telecom	1,293.9	13%	765.2	9%	69%
Home appliance	839.8	8%	414.7	5%	103%
Business and service	534.8	5%	471.0	5%	14%
Entertainment and Leisure	522.8	5%	607.7	7%	-14%
Others	903.3	9%	761.9	9%	19%
Total	10,213.1		8,627.4		18%

Source: Company data

Unlike other traditional media channels, such as TV/magazine/radio, that target the mass market (everyone can access to those media channel), Focus Media's channel is more "focused" on: 1) mid-to-high-end residential buildings and business buildings, and 2) tier 1 and 2 cities. Those residents and tenants living around the community of such buildings have much higher consumption power than mass market consumers across China. As a result, leading internet, FMCG, and auto companies, for example, would seek the channels of Focus Media when they launch a new product or new marketing campaign program, simply because this is a more efficient way to test the consumer market.

Figure 12: Focus Media vs. Advertisers' revenue yoy growth



Source: Company data

### Question 3, competition from internet advertisements? Not really

Investors may ask whether, given continuing internet penetration, and especially with more and more people using smartphones in China, Focus Media's offline channel will be threatened. We believe the impact on Focus Media will be limited. There are several differences between the internet and Focus Media in terms of how advertisements are communicated to consumers.

**1) Passive vs. active.** Compared with the active way of pushing the advertisement to the screen, the way internet advertisement does, Focus Media uses a passive



way. As we mentioned above, consumers are confined within a space with no signal for a few minutes and therefore, they are passively receiving the information from the display of Focus Media's advertisements. By contrast, internet advertising may not be as efficient, because consumers can choose to avoid receiving or ignore the advertisement pushed through to their smartphone.

**2) Barrier to entry: high vs. low.** Generally speaking, offline advertising is much more expensive than internet advertising. Most small-mid scale companies tend to use the internet as their mainstream way of advertising their products. The advantage of internet advertisements is that the fees are relatively affordable and controllable. We list below the pre-movie advertisement rate card for Youku.com for the year of 2017. The charge for 15 seconds in cities like Shanghai/Beijing is c. RMB 130-270/CPM, depending on the channels.

Figure 13: Rate card of pre-movie advertisement for Youku, 2017

		RMB/CPM (click per mille) for 15 seconds of ad					
		2017	Multi-screens	Smart phone	PAD	PC	OTT
Youku Pre movie ad	City tier		130	130	180	150	270
	Tier 1		90	90	135	110	200
	Tier 2		70	70	100	90	150
	Tier 3		55	55	75	60	110
	Other cities		45	45	55	50	80

Source: Company report

Meanwhile, its barrier to entry is also low, in that any brand or product, regardless of whether it is small or big, fake or real, can cast their advertisements to any consumers because internet advertising is difficult to track.

On the other hand, Focus Media targets leading companies in each consumer sector as their clients. We listed the rate card for Focus Media's LCD display in the table below. The entry level for Focus Media is much higher than the internet advertisement rate card.

Figure 14: Focus Media, packaged rate card for LCD display, 2012-16

	Number of LCD displays	Packaged price (RMB/week)
2012	126,200	537,840
2013	122,500	645,840
2014	133,700	770,400
2015	138,800	896,400
2016	141,576	1,075,680

Source: Company data

**2) Big advertisers vs. small advertisers.** Most big advertisers, such as P&G, Taobao, Alibaba etc would still prefer to use offline advertisements for their promotion. Compared with internet advertising, offline is better in helping companies in the following three ways:

- Strong display effect



- Help to shape the brand image
- More impressive to consumers

Figure 15: Difference between Focus Media and internet advertisement

	Internet	Focus Media
Communication of advertisement	Active	Passive
Brand	Small	Big
Barrier to entry	Low	High
Channel	Online	Offline
Targeted consumers	Mass	Premium

Source: Deutsche Bank

## Our forecast on building media growth

### Whilst difficult to track core earnings drivers...

We believe the "core" drivers for Focus Media should be: 1) number of clients, and 2) per client advertisement spending. Although we can see the company adjusts its rate card prices up by 20% and discounted prices by 7-10% for their clients every year, it's difficult for investors to track the growth from its customers and their spending because the contract is confidential.

### ...we modeled growth by looking at the annual growth of its building media screens

As a result, we believe using alternative drivers to forecast Focus Media's growth will make more sense from the company's reporting perspective. Focus Media reports its building media screen growth every year. We believe advertisement revenue from its clients can alternatively be reflected in the growth of its: 1) screen number (both LCD and poster frames), and 2) per screen revenue contribution.

### We are forecasting revenue CAGR of 16% for building media

Our forecast is primarily based on two segments: 1) LCD screens and 2) poster frames. Under each segment, we further break down the growth by: 1) expansion of its screen/poster frame number and 2) per screen/poster frame revenue.

**Expansion of LCD/poster frames.** In 1H17, Focus Media has 225,000 LCD screens covering 90+ cities and 1.14 million poster frames covering 50 cities in China. As Focus Media currently primarily targets tier 1 and 2 cities, we believe there is still high potential for its screens to penetrate tier 3 or lower cities. More importantly, with their internet/FMCG clients aiming to penetrate more in China, we believe Focus Media will also cover more areas in China.

**Increasing per screen revenue.** This is attributable to two factors: 1) like-for-like price hikes, and 2) higher utilization of its screens. Management guided that although the card rate price is likely to have 20% growth yoy, the discounted price hike is c. 5-7% growth every year. On top of that, the company can increase its per screen utilization (capacity).

- Every LCD will repeat its advertisement for 20 min during 20 hours every day..
- Clients can buy Focus Media's advertisement time (minimum unit is 15 seconds) within the 20 min

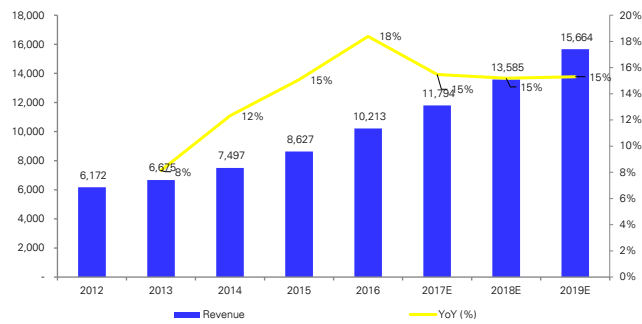


- Currently, for its LCD screens, the utilization rate for each screen is c. 60%. (tier 1 cities utilization rate is c. 90-100% per our channel check while tier 2 cities utilization is c. 30-40%)

**Our forecasts by segment**

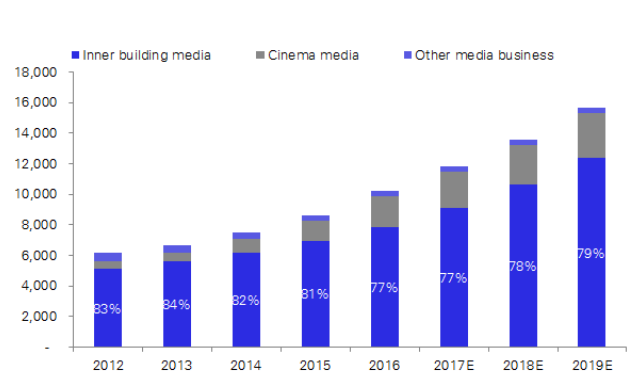
- LCD - we are forecasting a 2017-19E CAGR of 9% for the number of LCD display screens, and a 2017-19E CAGR of 4% for ASP.
- Poster Frame - we are forecasting a 2017-19E CAGR of 15% for the number of poster frames and a 2017-19E CAGR of 4% for ASP.
- Other media (mainly shopping malls and billboards) - contributes less than 4% of total revenue. we are forecasting a 2017-19E CAGR of 5% for such business revenue growth.

Figure 16: Revenue growth, 2012-2019E



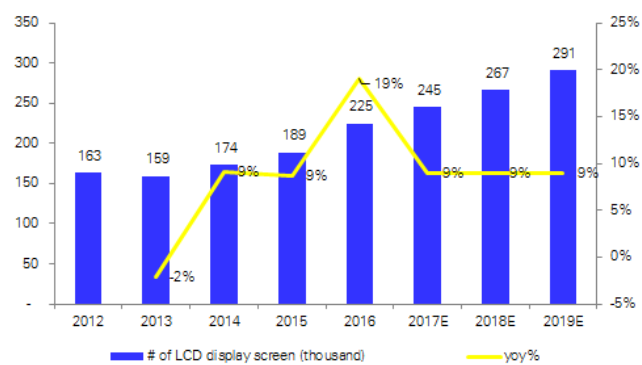
Source: Company data, Deutsche Bank estimates

Figure 17: Revenue breakdown, 2012-2019E



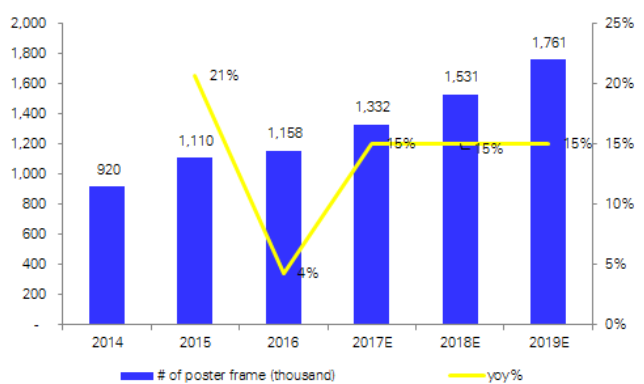
Source: Company data, Deutsche Bank estimates

Figure 18: LCD display screens growth, 2012-2019E



Source: Company data, Deutsche Bank estimates

Figure 19: Poster frame growth, 2012-2019E



Source: Company data, Deutsche Bank estimates

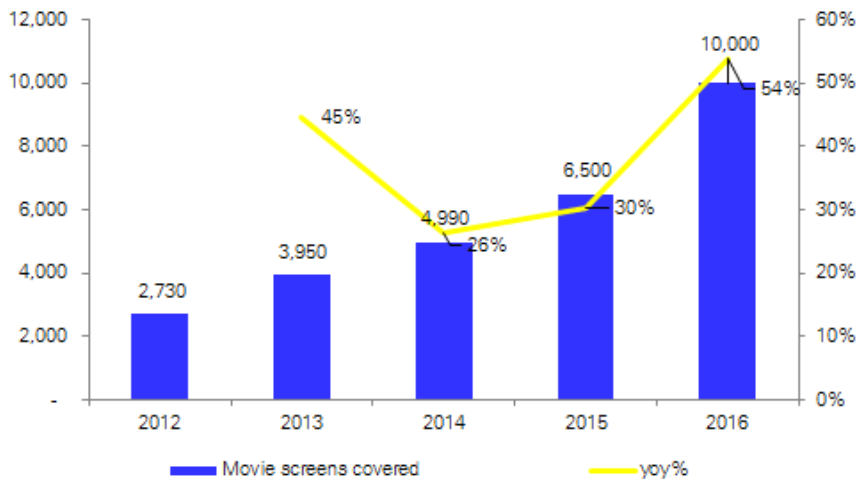


# Cinema media

## Riding the robust movie screen growth

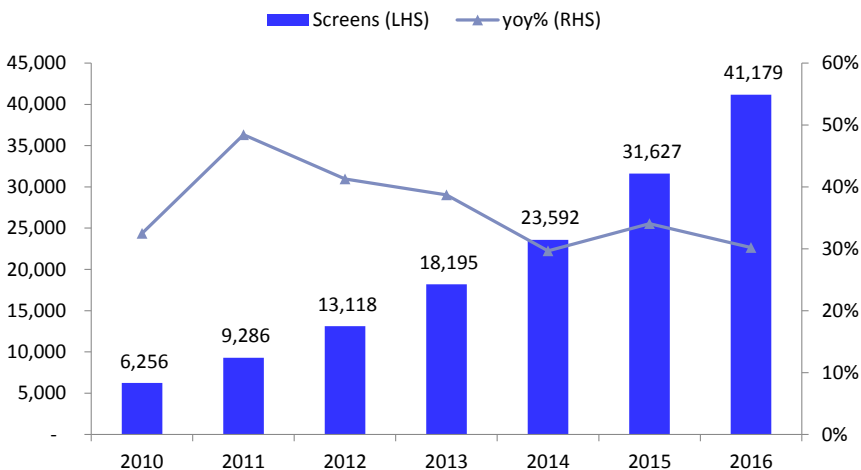
Similar to the business model and competitive advantage of building media, Focus Media leases movie screens and casts its advertisements before a movie starts (pre-movie advertising). Cinema media in China is dominated by only four players with Focus Media having the largest market share with 60%, followed by Wanda Film with 20%. China Film Group and Jinmao share the remaining 20% market share. As of 1H17, Focus Media had already signed a contract with more than 1,610 cinemas, with more than 10,600 movie screens in China across 290+ cities.

Figure 20: Movie screens signed by Focus Media, 2012 - 2016



Source: Company data, Deutsche Bank estimates

Figure 21: China movie screens growth, 2010 - 2016



Source: Deutsche Bank



**Fixed rent cost, no revenue share with cinema**

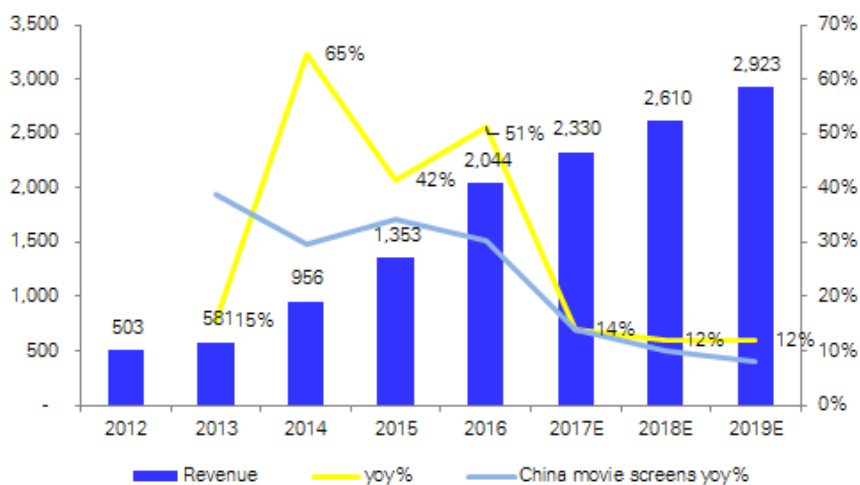
In terms of the business model, Focus Media doesn't share the revenue with the cinema. Similar to building media, cinema media is also a leveraged business: Focus Media will sign a lease contract for the movie screen with the cinema for a fixed cost and advertisement revenue above the rent cost is the profit. In terms of the rate card price, for example, Beijing's price is c. RMB1m for 15 seconds of advertisement per week.

**We forecast revenue CAGR to be 13% in 2017-19E**

The rapid growth in cinema media revenue in the past three years was mainly driven by theater expansion in China (over 25% yoy growth during 2013-2016). Therefore, we believe the growth in movie screens signed by Focus Media in 2017-19E will be in line with our China movie screen growth forecast.

- Our forecast for cinema media is based on our forecast of China's movie screen growth and per screen advertisement.
- After the rapid expansion of movie theaters in China during 2013-2016, we believe the growth will become milder started from 2017. We also saw total movie screens signed by Focus Media increase only by 6% to c. 10,600 as of 1H17 from c. 10,000 as of 2016 (note that signed movie screens increased by 28% to c. 8,300 as of 1H16 from c. 6,500 as of 2015).
- Media revenue per screen (c. RMB0.2m) has remained quite stable over the past three years. We believe such a trend will continue in 2017-19E.
- Therefore, we estimate that cinema media revenue growth will be 14%/12%/12% yoy in 2017/18/19E, which is in line with our China movie screen growth forecast.

Figure 22: Cinema media revenue growth, 2012-2019E



Source: Company data, Deutsche Bank estimates



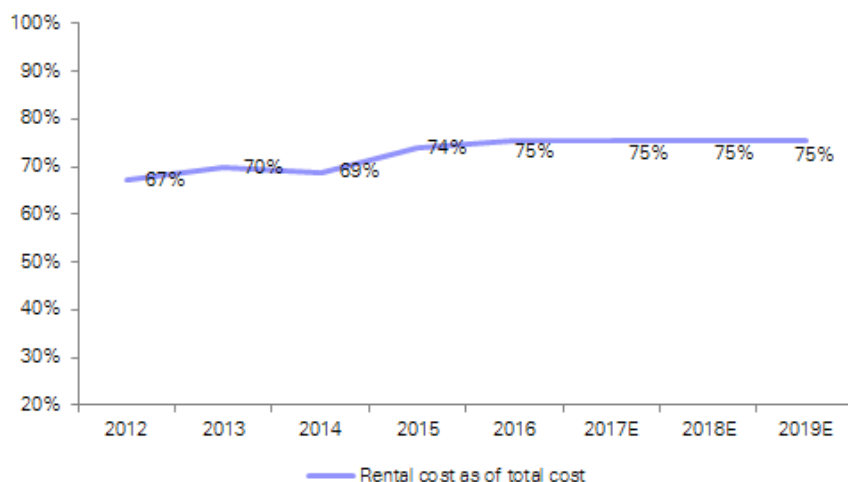
# Cost analysis, mostly the rent cost - which is fixed

## Like-for-like rental cost remains stable

The rental cost of Focus Media accounts for 70-75% of its total operating cost. Given that Focus Media dominates the inner building LCD/poster frame media channel with 90%/70%+ market share, we believe that: 1) its bargaining power is strong over its upstream, and 2) its gross margin will continue to be stable.

- Thanks to fragmented upstream companies, rental cost is stable. Rental cost is incurred when Focus Media rents advertising spots from property management companies or cinemas.
- Inner building media - as we mentioned before, property management companies are generally small and dispersed.
- Cinema media - in addition, even after large consolidations in recent years, the market of cinema companies is still fragmented (top 10 players account for less than 40% of market share).
- As a result, we believe that like-for-like rental costs will be stable due to Focus Media's strong bargaining power.
- Total costs will increase by the same growth rate as the topline, mainly driven by the expansion of media screens.
- With the stable level of its operating cost, total margin of c. 71% remains almost unchanged. We believe this trend will continue in the coming years.

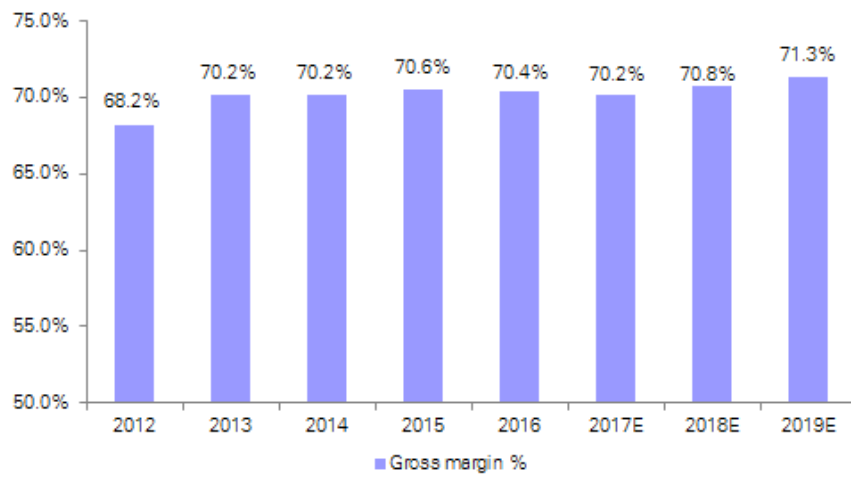
Figure 23: Rental cost as % of total cost, 2012-2019E



Source: Company data, Deutsche Bank



Figure 24: Focus Media gross margin, 2012-2019E



Source: Company data, Deutsche Bank





# Valuation

## A stable cash business for the long term

### Initiating coverage with Buy, price target RMB14

We initiate coverage of Focus Media with a Buy rating. Our DCF-based target price is RMB14, implying 35% upside potential at current levels. As the dominant player in inner building media, we argue that Focus Media should trade at a premium to its regional peers.

## DCF-based valuation

We derive our target price based on a DCF valuation. Focus Media's operations are strong and its free cash flow should continue to increase, as the company dominates the market for inner building media in China. As a result, we believe DCF is the best way to value Focus Media from a long-term perspective. Our key valuation assumptions include:

- WACC of 9.8%.
- Targeting 90% equity for its capital structure. The company is in a net cash position at the moment, with very small amount of interest-bearing debt.
- Cost of equity of 10.3%.
- A risk-free rate of 3.9% and a market risk premium of 5.6% (in line with our in-house estimates).
- A beta of 1.15, the same as the average of our China movie and media companies
- Cost of debt (pre-tax) of 6.0% (our in-house estimate).
- Terminal growth of 3%. This is the same as our terminal growth rate for our China movie and media companies.
- A tax rate of 25% (for terminal growth).

### Figure 25: DCF assumption

Equity as % of capital structure	90%
Beta (3Y beta from Bloomberg)	1.2
Risk free rate	3.9%
Equity risk premium	5.6%
Cost of equity	10.3%
Debt as % of Capital Structure	10.0%
Cost of debt (pre-tax)	6.0%
WACC	9.8%

Source: Deutsche Bank estimate



Figure 26: DCF valuation

Discounted FCF	160,036
WACC	9.8%
Terminal growth rate	3.0%
Net Cash	7,585
Minority Interest	(163)
Equity Value	167,458
Shares Outstanding	12,232
Value per Share	RMB 14
Upside potential	35%

Source: Deutsche Bank estimate

Figure 27: DCF valuation continued

RMB m	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Revenue	13,585	15,664	18,061	20,825	24,012	27,133	30,525	34,188	38,120	42,313
EBIT	6,334	7,626	8,812	10,181	11,763	13,319	15,015	16,851	18,827	20,940
Tax	(1,035)	(1,246)	(1,439)	(1,663)	(1,921)	(2,176)	(2,453)	(2,753)	(3,075)	(3,420)
NOPAT	5,299	6,381	7,372	8,518	9,841	11,144	12,562	14,098	15,751	17,519
D&A	118	124	143	165	190	215	242	271	302	335
Capex	(126)	(146)	(168)	(194)	(223)	(252)	(284)	(318)	(354)	(393)
Change Working Cap	(29)	(44)	(51)	(59)	(68)	(76)	(86)	(96)	(107)	(119)
FCF	5,262	6,315	7,297	8,431	9,741	11,030	12,434	13,955	15,592	17,342
Terminal growth rate										3.0%
Terminal Value										264,394
FCF	5,262	6,315	7,297	8,431	9,741	11,030	12,434	13,955	15,592	281,736
Discounted FCF	4,660	5,096	5,363	5,646	5,944	6,132	6,297	6,439	6,554	107,906

Source: Deutsche Bank estimate

Figure 28: Sensitivity analysis of terminal growth and WACC

	CNY 14	WACC									
		7.8%	8.3%	8.8%	9.3%	9.8%	10.3%	10.8%	11.3%	11.8%	12.3%
Terminal Growth Rate	2.4%	20	18	16	15	14	13	12	11	10	10
	2.6%	20	18	16	15	14	13	12	11	10	10
	2.8%	20	18	16	15	14	13	12	11	10	10
	3.0%	20	18	16	15	14	13	12	11	10	10
	3.2%	20	18	16	15	14	13	12	11	10	10
	3.4%	20	18	16	15	14	13	12	11	10	10
	3.6%	20	18	16	15	14	13	12	11	10	10

Source: Deutsche Bank estimate

## Risk reward profile seems attractive if we look at PER-based valuations

The stock is currently trading at 18x forward PER (excluding net cash) on our 2018 earnings forecast vs. its three-year CAGR of 20% . Focus Media is the leading media company, dominating the building/cinema media in China. However, its valuation is lower than its peers' average of 22x, as shown in the valuation comp sheet below.



Figure 29: Valuation comps

Ticker	English name	Chinese name	Current price	Market cap (USD m)	ROE (%)	2017E PER	2018E PER	2017E EV/EBITDA	2018E EV/EBITDA	DB Recomm.
<b>China media - Advertising</b>										
002027 CH Equity	FOCUS MEDIA IN-A	分眾傳媒	10.05	18,316.05	60.4	22.8x	19.3x	21.7x	17.8x	Buy
600386 CH Equity	BEIJING BASHI -A	北巴傳媒	7.07	892.10	6.4	38.7x	30.8x	16.1x	14.1x	NR
002712 CH Equity	SIMEI MEDIA CO-A	思美傳媒	21.77	1,038.52	10.4	22.7x	17.2x	19.6x	15.1x	NR
002400 CH Equity	GUANGDONG ADV -A	省廣股份	7.41	1,941.93	13.6	21.1x	17.8x	13.6x	11.5x	NR
300058 CH Equity	BLUEFOCUS COMM-A	藍色光標	7.90	2,657.85	10.5	21.8x	17.2x	18.9x	14.8x	NR
000607 CH Equity	ZHEJIANG HUAME-A	華媒控股	7.74	1,208.27	11.9	31.3x	29.0x	NA	NA	NR
<b>Average</b>						<b>26.4x</b>	<b>21.9x</b>	<b>18.0x</b>	<b>14.7x</b>	
<b>China media - movie&amp;TV drama</b>										
002739 CH Equity	WANDA CINEMA L-A	萬達院線	52.04	9,477	20.5	26.0x	20.5x	14.6x	11.2x	Buy
300133 CH Equity	ZHEJIANG HUACE-A	華策影視	12.02	3,256	9.8	32.2x	27.0x	20.1x	16.7x	Buy
300027 CH Equity	HUAYI BROTHERS-A	華誼兄弟	9.24	3,990	9.3	27.7x	23.3x	18.4x	15.0x	Hold
300251 CH Equity	BEIJING ENLIGH-A	光線傳媒	9.65	4,390	11.7	29.3x	23.9x	26.1x	19.3x	Buy
1970 HK Equity	IMAX CHINA HOLDI	IMAX CHINA	19.44	884	13.7	31.9x	28.7x	14.9x	12.8x	Sell
300291 CH Equity	BEIJING HUALUB-A	華錄百納	19.92	2,391.52	7.8	31.4x	24.9x	23.4x	18.3x	NR
601801 CH Equity	ANHUI XINHUA-A	皖新傳媒	12.51	4,103.41	18.8	20.2x	20.6x	NA	NA	NR
000719 CH Equity	CENTRAL CHINA-A	大地傳媒	10.99	1,561.59	10.3	15.7x	14.1x	NA	NA	NR
600977 CH Equity	CHINA FILM CO -A	中國電影	17.87	5,155.23	12.6	26.1x	21.8x	11.1x	10.0x	NR
601595 CH Equity	SHANGHAI FILM -A	上海電影	25.50	1,362.47	17.4	35.4x	29.7x	22.3x	18.5x	NR
300426 CH Equity	ZHEJIANG TALEN-A	唐德影視	23.20	1,414.44	18.4	25.1x	19.1x	21.3x	16.9x	NR
<b>Average</b>						<b>27.4x</b>	<b>23.1x</b>	<b>19.1x</b>	<b>15.4x</b>	

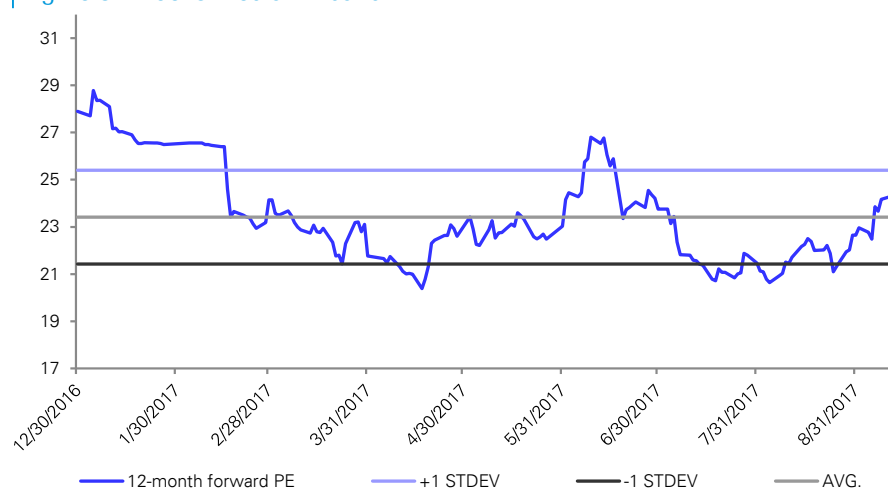
Source: Bloomberg Finance LP, Deutsche Bank estimate

Figure 30: DB estimate vs. consensus

RMB m	Consensus		DB estimates		Difference	
	2017E	2018E	2017E	2018E	2017E	2018E
Revenue	11,868	13,749	11,794	13,585	-1%	-1%
Gross profit	8,352	9,664	8,280	9,614	-1%	-1%
Reported net profit	5,409	6,322	5,369	6,335	-1%	0%

Source: Bloomberg Finance LP, Deutsche Bank estimate

Figure 31: Focus Media PE band



Source: Bloomberg Finance LP



# Financials

## Consolidated income statement

### Summary

We expect Focus Media's earnings to expand at yoy growth rates of 21% in 2017 and 18% in 2018 to hit RMB6,335m from RMB3,632m in 2016, driven by its: 1) high growth of inner building LCD and frame poster media; and 2) high growth of cinema media.

Figure 32: Summary

RMB m	2012	2013	2014	2015	2016	2017E	2018E	2019E
Revenue	6,172	6,675	7,497	8,627	10,213	11,794	13,585	15,664
Gross profit	4,211	4,682	5,263	6,088	7,194	8,280	9,614	11,174
SG&A	(2,524)	(2,622)	(2,711)	(2,476)	(2,773)	(3,025)	(3,281)	(3,548)
EBITDA	1,606	2,018	2,398	3,510	4,290	5,374	6,452	7,751
EBIT	1,606	2,018	2,398	3,369	4,160	5,255	6,334	7,626
Pre-tax profit	1,879	2,392	2,948	3,968	5,316	6,412	7,567	8,940
Reported net profit	1,339	2,077	2,415	3,389	4,451	5,369	6,335	7,485
Adjusted net profit	1,238	1,885	2,125	3,069	3,632	4,521	5,487	6,637
EPS (RMB)	4.60	6.87	7.99	0.45	0.52	0.44	0.52	0.61
Adjusted EPS (RMB)		6.23	7.03	0.40	0.42	0.37	0.45	0.54
<b>Margins (%)</b>								
Gross margin	68%	70%	70%	71%	70%	70%	71%	71%
SG&A as % of sales	41%	39%	36%	29%	27%	26%	24%	23%
EBITDA margin	26%	30%	32%	41%	42%	46%	47%	49%
EBIT margin	26%	30%	32%	39%	41%	45%	47%	49%
Tax rate	29%	13%	18%	15%	16%	16%	16%	16%
Net margin	22%	31%	32%	39%	44%	46%	47%	48%
Adjusted net margin	20%	28%	28%	36%	36%	38%	40%	42%
<b>YoY (%)</b>								
Revenue		8%	12%	15%	18%	15%	15%	15%
Gross profit		11%	12%	16%	18%	15%	16%	16%
SG&A		4%	3%	-9%	12%	9%	8%	8%
EBITDA		26%	19%	46%	22%	25%	20%	20%
EBIT		26%	19%	40%	23%	26%	21%	20%
Pre-tax profit		27%	23%	35%	34%	21%	18%	18%
Reported net profit		55%	16%	40%	31%	21%	18%	18%
Adjusted net profit		52%	13%	44%	18%	24%	21%	21%

Source: Deutsche Bank estimates, company data

### Expenses assumptions

We believe Focus Media's gross margin will remain stable and net margin will expand, as we expect operating expenses to decline. Sales and marketing expenses are the main part of operating expenses (70% of total SG&A in 2016). We expect SG&A expenses to achieve a CAGR of 7% between 2016 and 2019, compared to our estimated revenue CAGR of 14% during the same period, thereby resulting in margin expansion.



Figure 33: Expense assumptions

RMB mn	2012	2013	2014	2015	2016	2017E	2018E	2019E
<b>SG&amp;A</b>								
Sales taxes	300	311	270	310	359	415	478	551
As % of revenue	4.9%	4.7%	3.6%	3.6%	3.5%	3.5%	3.5%	3.5%
Sales and marketing expenses	1,671	1,849	1,902	1,729	1,944	2,127	2,315	2,512
As % of revenue	27.1%	27.7%	25.4%	20.0%	19.0%	18.0%	17.0%	16.0%
Administrative expenses	553	462	539	436	469	483	488	485
As % of revenue	9.0%	6.9%	7.2%	5.1%	4.6%	4.1%	3.6%	3.1%

Source: Deutsche Bank estimates, company data

Figure 34: P&L statement

RMB mn	2012	2013	2014	2015	2016	2017E	2018E	2019E
<b>Total revenue</b>	6,172	6,675	7,497	8,627	10,213	11,794	13,585	15,664
COGS	(1,961)	(1,992)	(2,234)	(2,540)	(3,019)	(3,514)	(3,971)	(4,490)
<b>Gross Profit (total)</b>	4,211	4,682	5,263	6,088	7,194	8,280	9,614	11,174
<b>SG&amp;A</b>	(2,524)	(2,622)	(2,711)	(2,476)	(2,773)	(3,025)	(3,281)	(3,548)
Sales taxes	(300)	(311)	(270)	(310)	(359)	(415)	(478)	(551)
Sales and marketing expenses	(1,671)	(1,849)	(1,902)	(1,729)	(1,944)	(2,127)	(2,315)	(2,512)
Administrative expenses	(553)	(462)	(539)	(436)	(469)	(483)	(488)	(485)
<b>Other income</b>								
<b>Other operating expenses</b>	(81)	(43)	(154)	(243)	(261)	-	-	-
Asset impairment	(81)	(43)	(154)	(243)	(261)	-	-	-
<b>EBITDA</b>	1,606	2,018	2,398	3,510	4,290	5,374	6,452	7,751
Depreciation	-	-	-	(138)	(126)	(116)	(117)	(124)
Amortization	-	-	-	(4)	(4)	(3)	(1)	(0)
<b>EBIT</b>	1,606	2,018	2,398	3,369	4,160	5,255	6,334	7,626
Financial Cost	130	128	177	129	142	144	219	300
Investment gain/loss	-	-	-	(1)	0	-	-	-
Change in fair value	-	-	-	-	-	-	-	-
<b>Non-operating income/(loss)</b>	143	246	373	470	1,014	1,014	1,014	1,014
Non-operating income	158	251	384	477	1,040	1,040	1,040	1,040
Non-operating expense	(15)	(5)	(11)	(7)	(26)	(26)	(26)	(26)
<b>Pre-tax profit</b>	1,879	2,392	2,948	3,968	5,316	6,412	7,567	8,940
Income taxes	(554)	(314)	(531)	(582)	(868)	(1,047)	(1,236)	(1,460)
<b>Net income</b>	1,326	2,078	2,417	3,386	4,448	5,365	6,331	7,480
Minority interest	13	(1)	(2)	3	3	4	5	6
<b>Net income to parents</b>	1,339	2,077	2,415	3,389	4,451	5,369	6,335	7,485
Adjustments (Mainly government subsidy)	(101)	(192)	(290)	(320)	(820)	(848)	(848)	(848)
<b>Adjusted net income</b>	1,238	1,885	2,125	3,069	3,632	4,521	5,487	6,637
Weighted avg number of shares (mn)	291	302	302	7,616	8,560	12,232	12,232	12,232
Number of shares (mn)	291	291	2,184	4,368	8,737	12,232	12,232	12,232
Diluted number of shares (mn)	291	291	2,184	4,368	8,737	12,232	12,232	12,232
Reported EPS (RMB)	4.60	6.87	7.99	0.45	0.52	0.44	0.52	0.61
<b>Adjusted EPS (RMB)</b>	4.25	6.23	7.03	0.40	0.42	0.37	0.45	0.54

Source: Deutsche Bank estimates, company data

### Balance sheet seems strong with abundant cash

Focus Media had a cash balance of RMB4.4bn at the end of 2016.

- The advertising business is generally a high cash yield business. Cash yield was 5.4% for Focus Media in 2016. We are expecting the cash yield to increase to 6.1% in 2019E.
- The company disclosed in its 2016 annual report that it may undertake M&A and strategic investment in media relative industries.
- In the past two years, the company also invested in its subsidiaries in areas of entertainment, sports and finance.



- We believe that Focus Media may use its abundant cash for strategic acquisitions in the future.
- On the other hand, given that the dividend payout ratio in 2016 is 80%, we also believe Focus Media will use its abundant cash to pay dividends.

Figure 35: Balance sheet

RMB mn	2012	2013	2014	2015	2016	2017E	2018E	2019E
Cash	3,660	949	1,427	2,983	4,366	6,238	8,237	10,583
Other cash	2,256	3,457	3,457	194	80	80	80	80
Account receivable	1,747	1,914	2,034	2,182	2,162	2,496	2,875	3,315
Other receivable	188	241	467	5,151	409	473	545	628
Inventory	-	-	-	-	-	-	-	-
Other current assets	460	460	535	621	2,855	2,855	2,855	2,855
<b>Current assets</b>	<b>8,310</b>	<b>7,021</b>	<b>7,919</b>	<b>11,130</b>	<b>9,872</b>	<b>12,142</b>	<b>14,592</b>	<b>17,461</b>
PP&E	397	366	334	301	266	260	269	291
Construction in progress	11	10	10	9	3	3	3	3
Investment properties	-	-	-	-	-	-	-	-
Intangible assets (Goodwill)	115	115	115	115	156	156	156	156
Long-term pre-paid expenses	17	19	16	6	5	2	1	0
Long-term equity investment	-	-	-	-	-	-	-	-
Other non-current assets	188	217	456	941	1,827	1,827	1,827	1,827
<b>Non-current assets</b>	<b>728</b>	<b>727</b>	<b>930</b>	<b>1,372</b>	<b>2,257</b>	<b>2,248</b>	<b>2,256</b>	<b>2,278</b>
<b>Total assets</b>	<b>9,038</b>	<b>7,748</b>	<b>8,849</b>	<b>12,502</b>	<b>12,129</b>	<b>14,390</b>	<b>16,848</b>	<b>19,739</b>
Short-term borrowings	-	-	-	-	652	652	652	652
Account payable	90	121	121	187	169	197	222	252
Salaries and wages payable	92	192	627	351	318	370	418	473
Taxes payable	1,114	1,049	943	701	736	856	967	1,094
Other payable	868	941	1,178	6,079	1,565	1,822	2,058	2,328
Other current liabilities	808	240	249	404	465	465	465	465
<b>Current liabilities</b>	<b>2,972</b>	<b>2,543</b>	<b>3,119</b>	<b>7,722</b>	<b>3,904</b>	<b>4,361</b>	<b>4,783</b>	<b>5,262</b>
Long-term debt	-	-	-	-	-	-	-	-
Deferred tax, credit	19	23	37	42	66	66	66	66
Other long-term liabilities	-	-	-	1	5	5	5	5
<b>Long-term liabilities</b>	<b>19</b>	<b>23</b>	<b>37</b>	<b>43</b>	<b>71</b>	<b>71</b>	<b>71</b>	<b>71</b>
<b>Total liabilities</b>	<b>2,992</b>	<b>2,566</b>	<b>3,156</b>	<b>7,766</b>	<b>3,975</b>	<b>4,432</b>	<b>4,854</b>	<b>5,333</b>
Shares capital	291	291	291	314	334	334	334	334
Additional paid-in capital	314	402	404	202	183	183	183	183
Surplus	211	218	218	76	146	146	146	146
Other comprehensive income	(0)	0	0	0	43	43	43	43
Retained earnings	5,115	4,138	4,647	4,006	7,286	9,090	11,126	13,538
Minority interest	115	133	134	137	163	163	163	163
<b>Equity</b>	<b>6,046</b>	<b>5,182</b>	<b>5,693</b>	<b>4,736</b>	<b>8,154</b>	<b>9,958</b>	<b>11,994</b>	<b>14,406</b>

Source: Deutsche Bank estimates, company data



Figure 36: Cash flow statement

RMB mn	2012	2013	2014	2015	2016	2017E	2018E	2019E
Net income	1,339	2,077	2,415	3,389	4,451	5,369	6,335	7,485
Depreciation & Amortization	-	-	-	141	129	119	118	124
<b>Change in working capital</b>		<b>(82)</b>	<b>221</b>	<b>(383)</b>	<b>230</b>	<b>59</b>	<b>(29)</b>	<b>(44)</b>
Account receivables		(167)	(120)	(147)	20	(335)	(379)	(440)
Inventory		-	-	-	-	-	-	-
Account payables		30	1	66	(18)	28	26	29
Other receivables/payables		55	341	(301)	228	366	324	367
Other adjustments		974	(119)	(517)	(11)	-	-	-
<b>Operating cash flow</b>	<b>2,546</b>	<b>2,969</b>	<b>2,517</b>	<b>2,630</b>	<b>4,800</b>	<b>5,547</b>	<b>6,424</b>	<b>7,565</b>
Capital expenditure	(109)	(112)	(103)	(93)	(95)	(110)	(126)	(146)
Other long-term investment	(274)	(1,940)	(28)	(529)	(886)	-	-	-
<b>Investing cash flow</b>	<b>(383)</b>	<b>(2,052)</b>	<b>(131)</b>	<b>(621)</b>	<b>(2,905)</b>	<b>(110)</b>	<b>(126)</b>	<b>(146)</b>
Issuance of shares	-	33	-	-	4,861	-	-	-
Issuance/(repayment) of debt	-	-	-	-	652	-	-	-
Dividend	-	-	-	-	(1,092)	(3,565)	(4,300)	(5,073)
Others	(373)	(3,661)	(1,908)	(460)	(4,933)	-	-	-
<b>Financing cash flow</b>	<b>(373)</b>	<b>(3,627)</b>	<b>(1,908)</b>	<b>(460)</b>	<b>(513)</b>	<b>(3,565)</b>	<b>(4,300)</b>	<b>(5,073)</b>
Effect of exchange	(1)	(0)	(0)	7	1	-	-	-
<b>Net change in cash</b>	<b>1,789</b>	<b>(2,711)</b>	<b>478</b>	<b>1,556</b>	<b>1,383</b>	<b>1,873</b>	<b>1,998</b>	<b>2,346</b>
Opening cash balance	1,870	3,660	949	1,427	2,983	4,366	6,238	8,237
<b>Ending cash balance</b>	<b>3,660</b>	<b>949</b>	<b>1,427</b>	<b>2,983</b>	<b>4,366</b>	<b>6,238</b>	<b>8,237</b>	<b>10,583</b>

Source: Deutsche Bank estimates, company data



# Risks

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## Downside risks

- **Threats from other advertising modes.** As the internet is becoming increasingly accessible, online advertising poses a threat to traditional advertising. Online advertising increased very fast in the past three years with c. 35% yoy growth, especially mobile internet.
- **More theaters start their own advertisement businesses.** Movie theater operators, such as Wanda and Jinyi have started to do advertising in their own cinemas. As of 2016, Wanda owns c. 20% market share in the cinema advertising business. In addition, large players such as Wanda and Jinyi will weaken Focus Media's bargaining power and increase the rental costs.
- **A slowdown in the China movie downstream industry.** The company's cinema business is highly dependent on China's movie downstream industry. 1) Piracy, 2) competition from online distribution and new media, 3) Lack of supply from upstream film producers, and 4) poor theater locations could affect the overall China movie downstream industry.
- **Slowdown of internet/FMCG sector growth.** Focus Media's clients are mainly from the internet and FMCG sector. Advertising expenses will be lower if the internet/FMCG sector growth slows down.

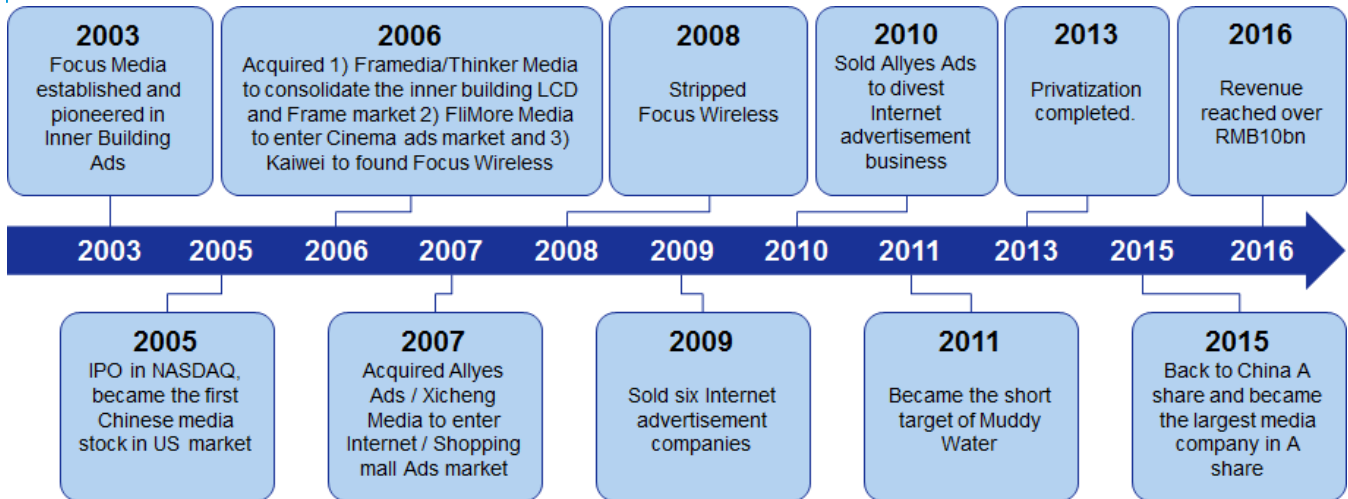




# Company background

Founded in 2003, Focus Media has created and pioneered the biggest lifestyle targeted interactive digital media network in China. Its business scope includes an LCD display network, a poster frame network, a movie theater network, and an in-store network. Surrounding the space of work, life, entertainment and consumption of mainstream people in major cities, it was integrated as the biggest lifestyle media network in China.

Figure 37: Company history highlights



Source: Company data, Deutsche Bank



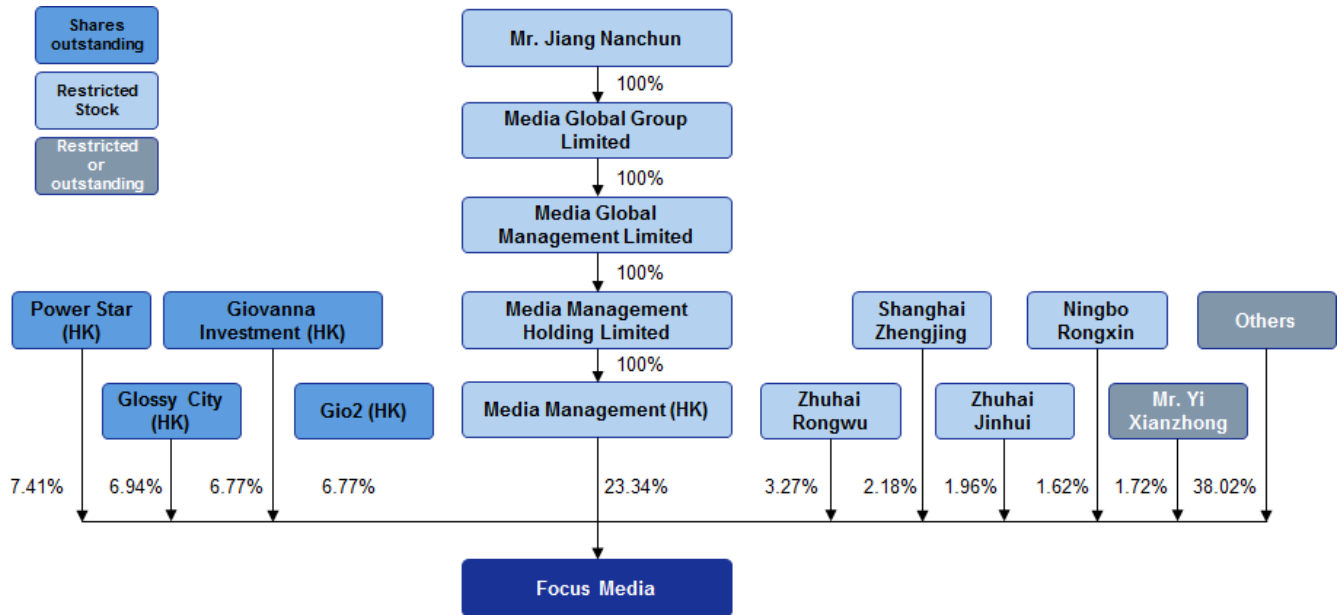
Figure 38: Management profile

Name	Age	Position	Background
Mr. Jiang Nanchun	46	Chairman of the Board	<ul style="list-style-type: none"> <li>- Graduating from Chinese department of East China Normal University, he founded Focus Media in 2003 and overturned the traditional media concept of people. He is the first person putting forward the concept of life circle of media. In Apr. 2006, Jason Jiang was elected as one of 25 China's most influential business leaders by Fortune.</li> <li>- In Feb. 2007, Jason Jiang became the 2006 Country Winner - Mainland China region of Ernst &amp; Young Entrepreneur Of The Year China which is the only global business award, and also has been identified as one of the most influential business awards.</li> <li>- In Nov. 2010, Jason Jiang obtained 2010 APEA (Asia Pacific Entrepreneurship Awards) of "young entrepreneur of the year", which was the first time the prize awarded in China mainland.</li> <li>- In Mar. 2011, Jason Jiang was awarded "Influential Figure of Chinese Advertising in 30 years Award " by China Advertising.</li> </ul>
Mr. Kit Low	48	President Finance Director	<ul style="list-style-type: none"> <li>- Kit Low joined Focus Media since Jan. 2010. Before joining Focus Media, Liu Jieliang once held the position of eSun Holdings in greater China, executive director of the entertainment group. Previously, Liu Jieliang held the position of executive director in media and internet research department of Goldman Sachs of the Asia-Pacific regions, mainly responsible for tracking, analyzing and researching main media and internet companies in China. Before joining Goldman Sachs, Liu Jieliang held the position of project manager of Johnson Controls Inc. in charge of development of Toyota in the U.S. market; later he held a global product project manager in Sybase Inc., an entertainment software development company of the United States.</li> <li>- Liu Jieliang graduated from University of Wisconsin-Madison and obtained Bachelor of Science degree for industrial engineering and filmmaking, and got an MBA from Columbia Business School in the United States.</li> </ul>
Mr. Shen Jie	48	Vice-president, Secretary of the Board and Director	<ul style="list-style-type: none"> <li>- Shen Jie, joined Focus Media in Aug. 2014. Before then, from 2000 to 2006, Shen Jie has assumed the position of attorney of Capital Markets Department and Acquisition department in Davis Polk &amp; Wardwell LLP New York headquarter and branch of Hongkong. From 2006 to 2009, he held the office of legal department director and member of risk control committee, issuance of the internal audit committee and company supervisors in Goldman Sachs Gaohua Securities Co., LTD.; from 2009 to 2013, he held the position of investment banking executive director, the managing director in Goldman Sachs Gaohua Securities Co., LTD.</li> <li>- Shen Jie graduated from Genetic Engineering School of Fudan University with bachelor's degree. After studying law major in the New York University, he received a doctor's degree in law.</li> </ul>

Source: Company data

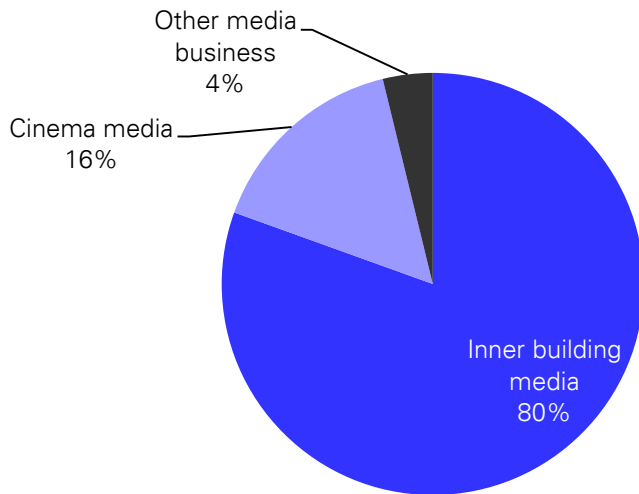


Figure 39: Focus Media – shareholder structure



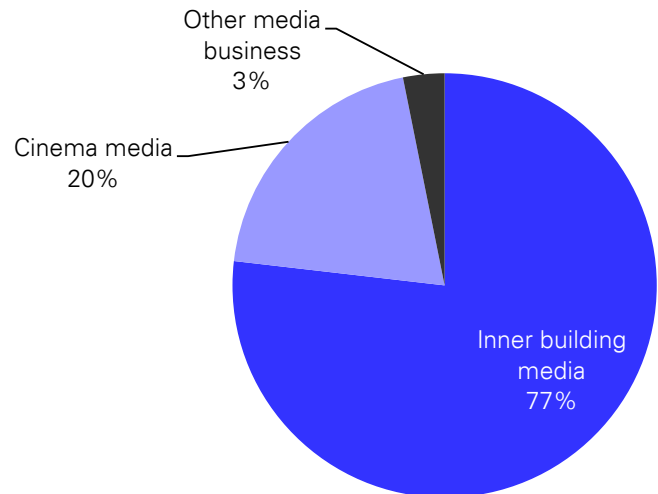
Source: Company data, Deutsche Bank

Figure 40: Focus Media - revenue breakdown, 2015



Source: Company data, Deutsche Bank

Figure 41: Focus Media - revenue breakdown, 2016



Source: Company data, Deutsche Bank

### 1H17 earnings results review

1H17, net profit increased by 33% yoy to RMB2.5bn . Total revenue increased by 14% yoy to RMB5.6bn in 1H17, from RMB4.9bn in 1H16, mainly driven by its inner building and cinema media business.

- Inner building media - revenue rose 14% to RMB4.4bn in 1H17, from RMB3.9bn in 1H16.
- Cinema media - revenue rose 14% to RMB1bn in 1H17, from RMB0.9bn in 1H16.



- Other media (mainly shopping mall and billboard) - revenue rose 25% to RMB208m in 1H17, from RMB167m in 1H16.

Figure 42: Focus Media - 1H17 earnings review

RMB m	1H16	1H17	yoy%
<b>Revenue</b>	<b>4,927</b>	<b>5,641</b>	<b>14%</b>
- Inner building	3,875	4,427	14%
- Cinema	885	1,006	14%
- Others	167	208	25%
Gross profit	3,425	3,994	17%
SG&A	(1,382)	(1,441)	4%
EBIT	1,806	2,971	64%
Pre-tax profit	2,274	3,078	35%
Reported net profit	1,901	2,533	33%
<b>Adjusted net profit</b>	<b>1,597</b>	<b>2,108</b>	<b>32%</b>
EPS (RMB)	0.23	0.29	26%
Adjusted EPS (RMB)	0.19	0.24	25%

Source: Company data, Deutsche Bank

*The authors of this report wish to acknowledge the contribution made by Mengyi (Matt) Zhang, an employee of CRISIL Global Research & Analytics, a division of CRISIL Limited, a third-party provider of offshore research support services to Deutsche Bank.*



Model updated: 11 September 2017

Running the numbers

Asia  
China  
Hotels / Leisure / Gaming

Focus Media

Reuters: 002027.SZ Bloomberg: 002027 CH

Buy

Price (14 Sep 17) CNY 9.72  
Target Price CNY 14.00  
52 Week range CNY 7.59 - 13.43  
Market cap (m) CNYm 118,891 USDm 18,213

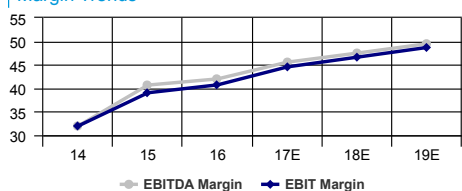
Company Profile

The Company has created and pioneered the biggest lifestyle targeted interactive digital media network for China. Its business scope includes LCD display network, poster frame network, movie theatre network, and in-store network. Surrounding the space of work, life, entertainment and consumption of mainstream people in major cities, it was integrated as the biggest life space media network in China.

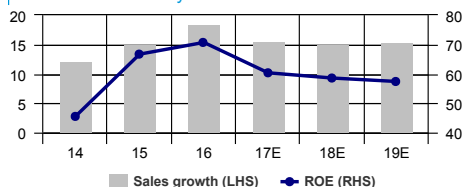
Price Performance



Margin Trends



Growth & Profitability



Tallan Zhou

+852 2203 6464

tallan.zhou@db.com

Fiscal year end 31-Dec 2014 2015 2016 2017E 2018E 2019E

Financial Summary

DB EPS (CNY)	7.99	0.45	0.52	0.44	0.52	0.61
Reported EPS (CNY)	7.99	0.45	0.52	0.44	0.52	0.61
DPS (CNY)	0.00	0.14	0.42	0.35	0.41	0.49
BVPS (CNY)	2.5	1.1	0.9	0.8	1.0	1.2
Weighted average shares (m)	302	7,616	8,560	12,232	12,232	12,232
Average market cap (CNYm)	815	58,297	93,016	118,891	118,891	118,891
Enterprise value (CNYm)	-3,935	55,258	89,385	113,387	111,389	109,043

Valuation Metrics

P/E (DB) (x)	0.3	17.2	20.9	22.1	18.8	15.9
P/E (Reported) (x)	0.3	17.2	20.9	22.1	18.8	15.9
P/BV (x)	0.99	13.90	10.81	12.14	10.05	8.35
FCF Yield (%)	296.2	4.4	5.1	4.6	5.3	6.2
Dividend Yield (%)	0.0	1.9	3.8	3.6	4.3	5.0
EV/Sales (x)	-0.5	6.4	8.8	9.6	8.2	7.0
EV/EBITDA (x)	-1.6	15.7	20.8	21.1	17.3	14.1
EV/EBIT (x)	-1.6	16.4	21.5	21.6	17.6	14.3

Income Statement (CNYm)

Sales revenue	7,497	8,627	10,213	11,794	13,585	15,664
Gross profit	5,263	6,088	7,194	8,280	9,614	11,174
EBITDA	2,398	3,510	4,290	5,374	6,452	7,751
Depreciation	0	138	126	116	117	124
Amortisation	0	4	4	3	1	0
EBIT	2,398	3,369	4,160	5,255	6,334	7,626
Net interest income/(expense)	177	129	142	144	219	300
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinary	0	0	0	0	0	0
Other pre-tax income/(expense)	373	470	1,014	1,014	1,014	1,014
Profit before tax	2,948	3,968	5,316	6,412	7,567	8,940
Income tax expense	531	582	868	1,047	1,236	1,460
Minorities	2	-3	-3	-4	-5	-6
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	2,415	3,389	4,451	5,369	6,335	7,485
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	2,415	3,389	4,451	5,369	6,335	7,485

Cash Flow (CNYm)

Cash flow from operations	2,517	2,630	4,800	5,547	6,424	7,565
Net Capex	-103	-93	-95	-110	-126	-146
Free cash flow	2,414	2,538	4,705	5,437	6,298	7,420
Equity raised/(bought back)	0	0	4,861	0	0	0
Dividends paid	0	0	-1,092	-3,565	-4,300	-5,073
Net inc/(dec) in borrowings	0	0	652	0	0	0
Other investing/financing cash flows	-1,936	-982	-5,819	0	0	0
Net cash flow	478	1,556	3,307	1,873	1,998	2,346
Change in working capital	221	-383	230	59	-29	-44

Balance Sheet (CNYm)

Cash and other liquid assets	4,884	3,176	4,445	6,318	8,317	10,663
Tangible fixed assets	343	310	269	263	272	294
Goodwill/intangible assets	115	115	156	156	156	156
Associates/investments	0	0	0	0	0	0
Other assets	3,507	8,900	7,258	7,653	8,103	8,626
Total assets	8,849	12,502	12,129	14,390	16,848	19,739
Interest bearing debt	0	0	652	652	652	652
Other liabilities	3,156	7,766	3,323	3,780	4,202	4,681
Total liabilities	3,156	7,766	3,975	4,432	4,854	5,333
Shareholders' equity	5,560	4,599	7,991	9,795	11,831	14,243
Minorities	134	137	163	163	163	163
Total shareholders' equity	5,693	4,736	8,154	9,958	11,994	14,406
Net debt	-4,884	-3,176	-3,793	-5,666	-7,665	-10,011

Key Company Metrics

Sales growth (%)	12.3	15.1	18.4	15.5	15.2	15.3
DB EPS growth (%)	16.3	-94.4	16.9	-15.6	18.0	18.2
EBITDA Margin (%)	32.0	40.7	42.0	45.6	47.5	49.5
EBIT Margin (%)	32.0	39.0	40.7	44.6	46.6	48.7
Payout ratio (%)	0.0	32.2	80.1	80.1	80.1	80.1
ROE (%)	45.5	66.7	70.7	60.4	58.6	57.4
Capex/sales (%)	1.4	1.1	0.9	0.9	0.9	0.9
Capex/depreciation (x)	nm	0.7	0.7	0.9	1.1	1.2
Net debt/equity (%)	-85.8	-67.1	-46.5	-56.9	-63.9	-69.5
Net interest cover (x)	nm	nm	nm	nm	nm	nm

Source: Company data, Deutsche Securities estimates



# Appendix 1

## Important Disclosures

\*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Focus Media	002027.SZ	9.72 (CNY) 14 Sep 2017	NA

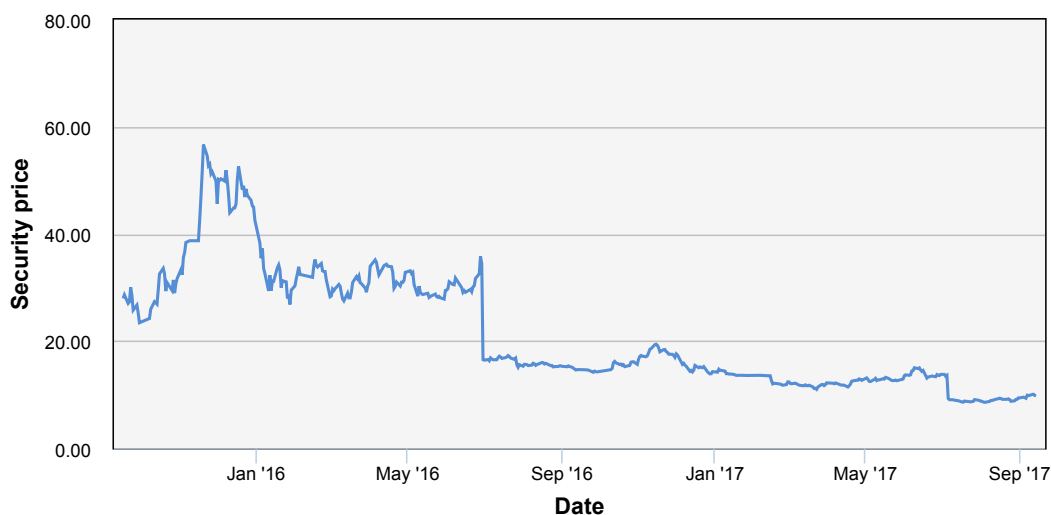
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## Historical recommendations and target price. Focus Media (002027.SZ)

(as of 09/14/2017)



### Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

\*\* Analyst is no longer at Deutsche Bank



**Equity Rating Key**

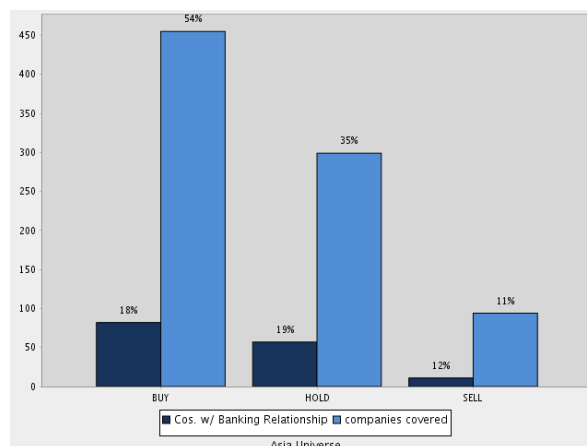
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**Sell:** Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.

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Newly issued research recommendations and target prices supersede previously published research.

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Research

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Dave Clark  
Head of APAC  
Equity Research

Pam Finelli  
Global Head of  
Equity Derivatives Research

Andreas Neubauer  
Head of Research - Germany

Spyros Mesomeris  
Global Head of Quantitative  
and QIS Research

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### International locations

#### Deutsche Bank AG

Deutsche Bank Place  
Level 16  
Corner of Hunter & Phillip Streets  
Sydney, NSW 2000  
Australia  
Tel: (61) 2 8258 1234

#### Deutsche Bank AG

Mainzer Landstrasse 11-17  
60329 Frankfurt am Main  
Germany  
Tel: (49) 69 910 00

#### Deutsche Bank AG

Filiale Hongkong  
International Commerce Centre,  
1 Austin Road West, Kowloon,  
Hong Kong  
Tel: (852) 2203 8888

#### Deutsche Securities Inc.

2-11-1 Nagatacho  
Sanno Park Tower  
Chiyoda-ku, Tokyo 100-6171  
Japan  
Tel: (81) 3 5156 6770

#### Deutsche Bank AG London

1 Great Winchester Street  
London EC2N 2EQ  
United Kingdom  
Tel: (44) 20 7545 8000

#### Deutsche Bank Securities Inc.

60 Wall Street  
New York, NY 10005  
United States of America  
Tel: (1) 212 250 2500

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