



## CITRON RESEARCH REPORTS ON CHINA MEDIA EXPRESS (NASDAQ:CCME)

### The China Reverse Merger stock that is “Too Good to be True”

Every investor protection website, from the SEC on down, posts this advice for investors: **“If it sounds too good to be true, it is...”** Looking back on major frauds like Bernie Madoff, the most common expression of regret from duped investors is framed just this way. Yet the “too good to be true” story is always tempting — especially so for those who haven’t been burned yet.

China Media Express (**NASDAQ:CCME**) operates a very simple business. They claim to be the largest television advertising operator on inter-city buses and airport express buses in China.

Management claims the company has grown faster and produced more cash flow than any other US listed Chinese media company over the last 4 years. In spite of having spent a mere fraction of what competitors have on infrastructure, CCME has purportedly grown profits from \$2M to to its recently raised guidance of \$85M expected this year, on revenues of **\$200 million**. Over the last 8 quarters, CCME reported generating \$95 million of cash flow after all CAPEX and for-cash acquisitions. If true, this ROI would be one of the highest in the world, and a complete outlier in the Chinese advertising market, generating even more profit than giant Focus Media, and outpacing all of their

competition by a landslide, despite their smaller footprint. There is only one problem: **No One in China Has Ever Heard of Them. It is Citron's opinion that if this company were operating in the United States, the stock would have buckled long-ago over the lack of transparency in its story.**

The perpetual burden of the short seller is “how can you prove a negative?” The internet has created new approaches to that conundrum. It wasn't so easy finding public information on “sewage wastewater treatment” in China, (that being the investor catastrophe that was RINO), or getting specifics on a business model with such a broad name and scope as “China Energy Savings” (ditto CESV). So when both companies turned out to be frauds, shareholders' due diligence failures could be understood.

By contrast, **advertising on mass transit in China is an extremely well-known and highly visible business.** Therefore, there is no excuse for a lack of proper due diligence on CCME.

**Does anyone know how to use Google or Baidu??**

.

If you simply go to Google or Baidu and put in the Chinese names for the three principal public media advertising operators in China, you will find a plethora of local media coverage about them in their native Chinese language. Articles range from new routes, partnerships, and industry information.

巴士在线 – Bus-online

世通华纳 – Towona

华视传媒 -VisionChina

Yet, if you Google or Baidu 中国高速频道 for CCME or 福建分众传媒, CCME's operating company, you will see not one article written on their operating business. There is vacuum of local media coverage of the company. So we are supposed to believe that the most profitable advertising company in China is just unknown to the Chinese people?

**CCME — The Phantom Company**

.

The clearest example of the “phantom” CCME is an 87 page report prepared by Analysis International

on the Chinese Outdoor LCD Screen Market for the year 2010. Every major real player in the space is mentioned...not just the top **three**, but the top **ten**! And guess who is missing? CCME is not mentioned anywhere in the doc.

<http://wenku.baidu.com/view/7a59ad51ad02de80d4d8401>  
[\[https://wenku.baidu.com/view/7a59ad51ad02de80d4d840](https://wenku.baidu.com/view/7a59ad51ad02de80d4d840)

.  
Then there was a recent article written in January 2011 about 360 media , the largest live trading platform for outdoor media in China. In it, they discuss all of inter-city bus advertising and again, with no mention of CCME. Covered entities are Towona, Bus-Online, and Vision China Media.

<http://news.cnfol.com/110121/101,1587,9211427,00.shtml>  
[\[http://news.cnfol.com/110121/101,1587,9211427,00.shtml\]](http://news.cnfol.com/110121/101,1587,9211427,00.shtml)

.  
This one is from China Business Intelligence, which mentions every player in the space and again...no CCME:

<http://chinabizintel.com/industry-updates/public-transport-tv-market-expanding-in-china.html>  
[\[http://chinabizintel.com/industry-updates/public-transport-tv-market-expanding-in-china.html\]](http://chinabizintel.com/industry-updates/public-transport-tv-market-expanding-in-china.html)

OK ... just one more. This one is from CNTV, China Network Television, which mentions everyone in the “bus media space”....no CCME.

<http://english.cntv.cn/english/special/AD/20101221/108457>  
[\[http://english.cntv.cn/english/special/AD/20101221/108457\]](http://english.cntv.cn/english/special/AD/20101221/108457)

.  
So CCME is a black box, a company that does not appear on its industry's radar, beyond their stock symbol. A simple trip to the CCME website does not reveal much, either for investors or potential business partners. If you go try to get a rate card, you get nothing.

<http://www.ccme.tv/eng/pns/rate.php>  
[\[http://english.cntv.cn/english/special/AD/20101221/108457\]](http://english.cntv.cn/english/special/AD/20101221/108457)

.  
If you try to click on the page that shows Cooperating Bus Operators, you get nothing.

<http://www.ccme.tv/gb/news/operators.php>  
[\[http://www.ccme.tv/gb/news/operators.php\]](http://www.ccme.tv/gb/news/operators.php)

.  
If you click on the link for Business Partners- you get the logos of just two media providers and no

advertising agents.

<http://www.ccme.tv/eng/about/partners.php>  
[\[http://www.ccme.tv/eng/about/partners.php\]](http://www.ccme.tv/eng/about/partners.php)

.

It appears to Citron that CCME's entire website is intended solely to reinforce the real business of CCME — which is **pushing the stock**. All of this non-disclosure on their site and in filings is in stark contrast to the colorful investor presentations that proclaim clients and partners that we read about in no other places except investor presentations.

<http://www.google.com/search?aq=f&sourceid=chrome&ie=UTF-8&q=%E5%88%86%E4%BC%97%E4%BC%A0%E5%AA%92#s>  
[\[https://www.google.com/search?aq=f&sourceid=chrome&ie=UTF-8&q=%E5%88%86%E4%BC%97%E4%BC%A0%E5%AA%92#s\]](https://www.google.com/search?aq=f&sourceid=chrome&ie=UTF-8&q=%E5%88%86%E4%BC%97%E4%BC%A0%E5%AA%92#s)

.

Contrast this to the real companies in the bus ad operating space. Below are the sites of Vision, Bus-online, and Towona. All 3 show either: routes, rate cards, media mentions, and advertising partners on both client and agency side. While apparently dwarfed in size by CCME's reported financial results, each of these competitors have legitimate and documented relationships with large scale advertisers and bus operators as identified throughout their sites.

.

<http://www.bus-online.com.cn/> [<http://www.bus-online.com.cn/>] (they actually list all of their advertising agents) <http://www.bus-online.com.cn/?action-category-catid-44> [<http://www.bus-online.com.cn/?action-category-catid-44>]  
<http://www.visionchina.cn/phoenix.zhtml?c=215970&p=index>  
[\[http://www.visionchina.cn/phoenix.zhtml?c=215970&p=index\]](http://www.visionchina.cn/phoenix.zhtml?c=215970&p=index)  
<http://www.towona.com/>  
[\[http://www.towona.com/\]](http://www.towona.com/)

## Just One Example of the Numbers that Don't Make Sense

.

How can CCME generate three and a half times the revenue per screen of its competitors? CCME has

roughly 55-60K displays; VISN has appx 120,000 screens. In Q2, 2010. VISN's total revenue was \$31 million and CCME generated \$53 million from less than half the screens. Remember that VISN operates bus advertising in major metropolitan areas, compared to CCME, which claims inter-city buses between 2nd and 3rd tier markets. That is what the company wants investors to believe.

## The Cover-up

.

The company's attempted to add some clarity to their story at its recent investor day. Out of all the people who could have spoken positively about the company, they chose a representative from Shanghai Apollo Culture Corp. 上海阿波罗文化艺术公司, 张旭东. Here is the video.

<http://www.youtube.com/watch?v=tli7Al2r9Io>  
[<https://www.youtube.com/watch?v=tli7Al2r9Io>].

In reality Apollo is nothing more than a 2 person shop that can barely pay their bills and had annual revenue of \$330K RMB (yes \$60K US Dollars), as stated in this article below.

<http://www.51jms.com/news/137195.htm>  
[<http://www.51jms.com/news/137195.htm>]

The lack of disclosure extends to the last two press releases about the actual business from CCME that announce two sizable contracts , but no counterparties ... in typical CCME fashion.

<http://www.ccme.tv/eng/ir/press/p101124.pdf>  
[<http://www.ccme.tv/eng/ir/press/p101124.pdf>]  
<http://www.ccme.tv/eng/ir/press/p110113.pdf>  
[<http://www.ccme.tv/eng/ir/press/p110113.pdf>]

## Debunking The "Alleged" Government Deal.

.

In the filings we read that CCME has become the "sole strategic partner for "an entity affiliated with the Ministry of Transport". In reality the deal is with the (Transport Television Audio Video Center) TTAVC. This is not an "exclusive with the government", but rather with a Production Company with government affiliation and should have no authority over directing local bus

advertising. Better yet, if you go to the website of TTAVC and look under a list of companies who they work with, **CCME is noticeably absent**. Neither can you find CCME operating subsidiary anywhere on the site of the TTAVC.

<http://www.jtbtv.com/worktogether.php>

[<http://www.jtbtv.com/worktogether.php>]

Citron notes that CCME has further confused the story for the US Investor to think that they have an exclusive with the Government for inter-city buses.

That is just a lie. We are not saying there is no deal with this production company, just that it does not appear to be significant enough to be written anywhere except some corporate filings.

[http://www.ccme.tv/eng/about/free\\_installation.pdf](http://www.ccme.tv/eng/about/free_installation.pdf)

[[http://www.ccme.tv/eng/about/free\\_installation.pdf](http://www.ccme.tv/eng/about/free_installation.pdf)]

## No Substantial Analyst Coverage

It appears that CCME might be a darling for college kids and bloggers (retail), but the analysts know better. Ask yourself this question: How could the fastest growing advertising company in all of China, with industry leading margins and profit, not even get a proper analyst to believe this crazy story?

The two analysts who cover CCME are Global Hunter and Northland. Global Hunter, a small new firm, has been a long time banker of Chinese RTOs and even had a \$20 target on RINO.

[http://www.streetinsider.com/New+Coverage/Global+Hunter+\(RINO\)+at+Buy/5998411.html](http://www.streetinsider.com/New+Coverage/Global+Hunter+(RINO)+at+Buy/5998411.html)

[[http://www.streetinsider.com/New+Coverage/Global+Hunter+\(RINO\)+at+Buy/5998411.html](http://www.streetinsider.com/New+Coverage/Global+Hunter+(RINO)+at+Buy/5998411.html)].

As for Northland Securities, as a professional courtesy, the editor of Citron phoned analyst Darren Aftahi yesterday, to see if they knew something Citron didn't. After a nice conversation, Darren admitted the possibility that China Media could be a fraud. Furthermore, Citron believes that Northland and its analyst have become mere cheerleaders for the stock, as this morning they recommended their clients "buy on weakness" without considering the doubts of their own analyst or having the benefit of all available information. It

is Citron's opinion that urging clients to buy without considering important concerns just now surfacing is like encouraging people to drink the Kool Aid without finding out first what's in it.

By contrast, Focus Media, while larger in top line but lower operating income, is covered by: Goldman Sachs, JP Morgan, CSFB and Deutsche Bank. More alarming are Vision China Media and AirMedia which are a fraction of CCME's profitability and market cap, yet are covered by JP Morgan, BOA, and Oppenheimer.

The moral of the story is that short sellers are not the only ones who are aware of the problems with CCME. It has become a stock for the "sucker retail investor"....sorry to say, but true.

Not only have the mainstream analysts and local media ignored CCME, but none of the other Chinese advertising companies list CCME as a competitor in their SEC filings. These include Focus, AirMedia, and Vision China Media. That leaves this company a complete mystery to everyone except its fervent shareholders.

## **They Got the Big Mac, We Got the Big Mick.**

.

In order to add to the confusion over the story and possibly to further themselves on someone else's reputation, we would like to point out something very odd. In Chinese, the name of the CCME's operating corp. is "Fujian Focus Media" — Fujian being the province they are domiciled. Focus Media is the largest and most respected advertising company in China. To make your name so similar would be as if someone were to open a software company in New York and called it "Microsoft New York". This does not seem like behavior of a company that wants to build a brand, but rather a company opting for deception instead of brand-building.

## **Conclusion**

.

In preparing this report, Citron has come across a plethora of information pointing to CCME being a fraud. These include but are not limited to: SAIC documents, Credit Rating Agency Documents, fake

awards and accolades, quotes from industry professionals, and more financial analysis than this company even deserves. The purpose of this report was to look at CCME using simple common sense to understand that the company does not exist at the scale that they are reporting to the investing public. We are not saying that they do not operate any buses, but if you believe that the company operations are truly reflected, or even close to their stated financial disclosures, than you must go to Taco Bell for some filet mignon.

**Stay Tuned For Part Two...Cautious Investing To All.**

JANUARY 30, 2011 /

Share this entry



---

© Copyright 2018 - Citron Research | All Rights Reserved | "Cautious Investing To All"