

CMGE Technology (302 HK)

Looking into 2H20E strong pipeline

CMGE delivered 1H20 results, with topline/bottom line +12.1%/27.6% YoY, in line with our estimates. We suggest investors to move into its 2H20E strong pipeline, backed by three highly-anticipated titles cooperating with Tencent & Toutiao. We are also surprised to see its new IP game *The new legend of The Condor Heroes* <新射雕群俠傳> ranked Top 8 in iOS grossing rank after launch on 20 Aug, with estimated monthly grossing of RMB200mn. Looking ahead, we expect CMGE to deliver solid growth in the long run, backed by valuable IP reserve and rich pipeline. We keep our forecast and TP of HK\$4.39 unchanged.

- 1H20 in line.** 1H20 revenue grew 12.1% YoY, slightly below our estimates. Adj. net profit grew 27.6% YoY, in line with our estimates. 1H20 growth was primarily from contribution of existing games and new game Xuan Yuan Sword <軒轅劍>, with benefit from COVID-19. Looking ahead, we expect CMGE to perform well in 2H20E and long run, and forecast its revenue/ adj. net profit to grow 28%/31% YoY in FY20E.
- Bullish on 2H20E momentum, with three key titles in pipeline.** After moderate pipeline in 1H20, we are impressed by its newly-launched title *The new legend of The Condor Heroes* <新射雕群俠傳>. Backed by its hot IP of Jin Yong <金庸> and unique ink painting style, *The Condor Heroes* was ranked Top 8 in iOS grossing rank, with user retention over 50%. We estimate its initial monthly grossing at RMB200mn, and long-term net margin at 20%. Apart from that, there are still 12 key titles to be launched in 2H20E. We expect *The King of Fighters* <全明星激斗>, *One Piece: The Voyage* <航海王熱血航線> to deliver meaningful contribution in FY20 & FY21E, with Toutiao's guarantee annual grossing of RMB600mn/RMB1bn. *Monster List* <妖怪名單>, agented by Tencent, could also be the next hot title, after launch at the end of Sep. *Dynasty Warriors* <真·三國無雙>, another game cooperating with Tencent, might be delayed to 1Q21E for game license, but would pose minimal financial impact in FY20E. We also keep positive on its FY21E growth, backed by around 20 key titles in pipeline.
- Maintain BUY.** We barely changed our forecasts, and keep our DCF-based TP of HK\$4.39 unchanged (implying 11.4x FY20E P/E), still below industry average of 15x P/E. Valuation is attractive. We believe CMGE's positive price drivers and catalysts originate from: 1) upcoming *Monster List* <妖怪名單> in Sep; and 2) two key titles agented by Toutiao in 4Q20.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	1,596	3,036	4,370	5,192	5,938
YoY change (%)	58%	90%	44%	19%	14%
Adj. net income (RMB mn)	335	611	802	960	1,091
Adj. EPS (RMB)	NA	0.28	0.34	0.41	0.47
YoY growth (%)	NA	NA	31%	20%	14%
Consensus EPS (RMB)	NA	NA	0.34	0.42	0.45
P/E (x)	NA	NA	8.4	6.9	6.5
P/S (x)	3.6	1.9	1.3	1.1	1.0
Yield (%)	0	1%	3%	3%	4%
ROE (%)	22.81	21.92	20.31	20.51	19.08
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **HK\$4.39**
 (Previous TP **HK\$4.39**)
 Up/Downside **+34.7%**
 Current Price **HK\$3.26**

China Internet Sector

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Stock Data

Mkt Cap (HK\$ mn)	7,596
Avg 3 mths t/o (HK\$ mn)	121.09
52w High/Low (HK\$)	4.49/2.34
Total Issued Shares (mn)	2,330

Source: Bloomberg

Shareholding Structure

Fairview Ridge Investment	29.8%
Pegasus Network	12.6%
Hotel Zhike	12.5%

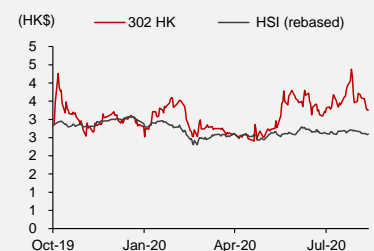
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-7.1%	-6.9%
3-mth	9.8%	13.1%
6-mth	-3.6%	0.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

- Solid FY19; Strong momentum to continue – 30 Mar 2020
- IP-oriented game publisher pioneer – 24 Feb 2020

Figure 1: CMGE's 1H20 financials review

RMB mn, Dec-YE	1H19	1H20	YoY
Revenue	1,529	1,714	12%
Cost of sales	(1,001)	(1,183)	18%
Gross profit	528	531	1%
Selling and distribution expenses	(140)	(103)	-27%
Administrative expenses	(111)	(167)	49%
Other expenses	(8)	(25)	222%
Operating profit	269	237	-12%
Other income and gains	40	96	
Finance costs	(5)	(21)	
Share of profits and losses of JV	(1)	(0)	
Share of profits and losses of associates	(3)	6	
Pre-tax profit	293	301	3%
Tax	(43)	(25)	
Profit for the period	250	276	10%
MI	(11)	(12)	
Net profit attributable to ordinary shareholders	260	288	11%
Adj. net profit	268	342	28%
Margin Analysis			
Gross margin	35%	31%	-4ppts
Operating margin	18%	14%	-4ppts
Adj. net margin	18%	20%	+2ppts

Source: Company data

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	1,596	3,036	4,376	5,192	5,938
Game publishing	1,400	2,553	3,678	4,341	4,928
Game development	178	421	621	773	924
IP licensing	18	62	71	78	86
COGS	(1,064)	(1,953)	(2,865)	(3,408)	(3,900)
Gross profit	532	1,083	1,505	1,784	2,038
S&M	(148)	(230)	(350)	(389)	(445)
R&D	(149)	(577)	(299)	(362)	(404)
Other expenses	(8)	(21)	(22)	(26)	(30)
Operating profit	228	255	834	1,007	1,159
Other income	124	95	109	123	124
Finance costs	(9)	(15)	-	-	-
Associates	14	8	-	-	-
Pre-tax Income	356	344	944	1,129	1,284
Income Tax	(40)	(100)	(142)	(169)	(193)
MI	5	(5)	-	-	-
Net profit	311	248	802	960	1,091
Adj. net profit	335	611	802	960	1,091

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Pre-tax Income	356	719	944	1,128	1,284
D&A	36	22	7	8	9
Change in WC	(245)	80	83	(27)	(27)
Others	(87)	(161)	(211)	(239)	(212)
Operating CF	60	660	823	870	1,053
Capex	(103)	(35)	(30)	(30)	(30)
Others	(325)	0	0	0	0
Investing CF	(428)	(35)	(30)	(30)	(30)
Equity raised	(1)	1,200	-	-	-
Others	(102)	574	793	840	1,023
Financing CF	(104)	1,774	793	840	1,023
Net change in cash	(104)	1,774	793	840	1,023
Cash (beg of yr)	246	144	1,918	2,711	3,111
FX	3	-	-	-	-
Cash (end of yr)	144	1,918	2,711	3,552	4,134

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	2,032	2,593	2,208	2,265	2,319
Fixed asset	6	5	2	(0)	(2)
Goodwill	1,119	1,119	1,023	1,023	1,023
Intangible assets	118	155	134	159	182
Others	947	1,570	1,325	1,412	1,491
Current assets	960	1,965	2,857	3,862	4,283
Cash	144	711	2,217	3,111	4,134
Trade receivables	472	790	416	497	574
Other current assets	343	404	224	254	281
Current liabilities	755	1,284	679	765	840
Bank loans	51	442	-	-	-
Trade and other payables	575	687	542	627	702
Tax payable	41	117	117	117	117
Other current liabilities	88	37	21	21	21
Non-current liabilities	395	213	196	196	196
Deferred tax liabilities	30	32	32	32	32
Contingent consideration	268	163	163	163	163
Others	97	17	-	-	-
Total Equity	1,863	3,712	4,190	5,167	6,271

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Game publishing	87.7	84.1	84.2	83.6	83.0
Game development	11.1	13.9	14.2	14.9	15.6
IP licensing	1.1	2.0	1.6	1.5	1.4
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	57.6	90.2	43.9	18.8	14.4
Gross profit	56.4	103.4	39.0	18.5	14.2
EBIT	139.2	11.9	227.4	20.6	15.2
Net profit	2.8	82.1	31.3	19.6	13.7
P&L ratios (%)					
Gross Margin	33.4	35.7	34.4	34.4	34.3
Pre-tax margin	22.3	11.3	21.6	21.7	21.6
Adj. net margin	19.5	20.1	18.4	18.5	18.4
Effective tax rate	(11.3)	(29.2)	(15.0)	(15.0)	(15.0)
Returns (%)					
ROE	22.8	22.1	20.3	20.5	19.1
ROA	15.3	16.4	15.6	17.1	16.2

Source: Company data, CMBIS estimates

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