

CMGE

Earnings Review

More top hits scheduled to launch in 2H with a big room for valuation expansion, PT to HK\$5.0

1H in line and expect rev re-accelerate in 2H, raise PT to HK\$5.0

CMGE reported 1H20 revenue of RMB1.7bn, up 12.1% YoY/13.7% HoH, in line with our expectation. Gross margin was 31.0%, down from 35.7% in FY19, mainly due to revenue mix shift to games published through 3rd-party publishing channels. Adj. net profit (excl. SBC & FV gain/loss) came in at RMB288mn, up 16.0% YoY. As several top hits are scheduled to launch in 2H, we expected revenue growth reaccelerate and maintained our FY20E full year revenue unchanged at RMB4.4bn. In light of CMGE's leading position in IP game and strong pipelines, we reiterate Buy on CMGE. As the stock is trading at a deep discount to its mid-sized peers, we see a big room for valuation expansion. We raise our PT to HK\$5.0, comprising HK\$4.7 for game by applying 14x FY20E P/E (in line with mid-sized peers'), and HK\$0.3 for the strategic investment for its IP ecosystem.

More top hits scheduled in 2H on top of stable LT operating games

As at 30 June 2020, CMGE was operating 80 online games vs 73 as at year end of 2019. One Piece – the Road of the Strong (航海王強者之路) and Naruto – Ninja Master (火影忍者 – 忍者大師) launched in 2016, The Story of the Flying Mortal H5 (凡人飛仙傳 H5) launched in 2018, still contribute stable gross billing and profit. The top hit The World of Legend – Thunder Empire (傳奇世界之雷霆霸業), which has been launched for more than 21 months remained stable. It recorded the highest monthly gross billing of RMB107.7mn. In 2H, more top hits are scheduled to launch, including One Piece: The Voyage (航海王熱血航線) and The King of Fighters: All Stars (全明星激鬥), exclusively distributed by ByteDance, and Dynasty Warriors: Hegemony (真 · 三國無雙霸) and Monster List: Past and Present Lives (妖怪名單之前世今生), exclusively distributed by Tencent; and popular IP-based games, including the Legend series (傳奇), Condor Trilogy (射雕三部曲). We estimate that those new launches will be likely to bring another ~RMB600mn revenue in 2H20 on top of 1H. Meanwhile, as revenue mix shift to high margin exclusively licensed games, it will be accretive to margins, in our view.

Continued to strengthen IP ecosystem and self-devt capability

In 1H20, CMGE invested in Love Games (樂府互娛) and Cheng Liangqi, the Founder of Love Games, serves as Chief Product Consultant of CMGE to help expand IP card games. Meanwhile, CMGE also invested Kyushu (寰宇九州), hoping to integrate IP strategy into tower defense and SLG games. On the operating side, in 1H20, MAU/MPU/total new registered users grew by 7.6 YoY/11.6 YoY/36.4% YoY, respectively. Avg. paying user conversion rate improved to 7.5% in 1H20 vs 7.3% in 1H19. Adj. opex ratio declined to 12.6% compared to 14.7% in FY19. As at 30 June 2020, CMGE had 39 licensed IPs and 68 proprietary IPs. We believe IP strategy will continue to help improve operating efficiency.

Risks

Key risks to our PT include: 1) uncertainty about IP licenses; 2) possibility of goodwill impairment; 3) failure in building in-house game development capabilities; 4) uncertainty about game permits and approvals.

Stock code: 302.HK

Rating: Buy

Price target (HK\$)	5.0
Previous price target (HK\$)	4.4
Current price (HK\$, 28 Aug 2020)	3.5
Total upside/downside %	45%
Market cap (HK\$ m)	8,062
Market cap (US\$ m)	1,040
Avg daily turnover (HK\$ m)	94

Source: Bloomberg, AMTD research estimates

Key forecasts

(RMB m)	2019	2020e	2021e	2022e
Revenue	3,036	4,368	5,328	6,416
yoy %	90%	44%	22%	20%
Core net profit	557	728	870	1,112
yoy %	142%	31%	19%	28%
Core EPS (RMB)	0.29	0.31	0.37	0.47
Core NPM	18%	17%	16%	17%

Source: Company data, AMTD research estimates

Valuation

	FY19	FY20e	FY21e	FY22e
P/S	2.4	1.7	1.4	1.2
P/E	10.7	10.2	8.6	6.7
EV/EBITDA	9.6	6.8	5.7	4.4
Dividend yield	1.0%	2.6%	3.0%	3.8%
ROE	8.9%	19.9%	20.0%	21.4%

Source: Bloomberg, AMTD research estimates

Share price performance (HK\$)



Source: Bloomberg

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Updates on new top hits

- The New Legend Of The Condor Heroes: Iron Blood and Loyal Heart (新射雕群俠傳之鐵血丹心): Under the license of Louis Cha Leung-yung (金庸), the CMGE's first mobile game of a trilogy, The New Legend Of The Condor Heroes: Iron Blood and Loyal Heart (新射雕群俠傳之鐵血丹心) was officially launched in Apple Store on 20 August 2020. By the persistent IP influence, the game ranked first on the Apple Store Free List for six consecutive days and ranked fifth on the best-selling list.
- One Piece: The Voyage (航海王熱血航線): a new 3D mobile game under One Piece brand developed by Shanghai Langkun, a R&D company invested by CMGE. The company obtained the IP license from Toei Animation. The game restores a 3D immersive world for the players, and players can follow the main line of the original plot to review the story, recruit original partners, carry out 3D real-time battle, and showcase mind-blowing techniques. The game will be exclusively licensed to top traffic platform & publisher – ByteDance.

Figure 1: Major games launched and pipeline by type

Type Name		Genres	IP	Launch time	avg. MAUs 1H2019	Revenue (RMB '000) 1H2019	Exclusive licensee
1. games exclusively licensed to 3rd publishers							
Candleman	蠟燭人	Indie Game	Non-IP	2018	N.A.	N.A.	Tencent
Fighter of Destiny	擇天記	MMORPG	IP	2018	N.A.	N.A.	Tencent
The National Gunlord The Frontier	全民槍神:邊境王者	STG	Non-IP	2019	N.A.	N.A.	Tencent
Dynasty Warriors: Hegemony	真·三國無雙	ARPG	IP	2020	N.A.	N.A.	Tencent
One Piece: The Voyage	航海王熱血航線	ARPG	IP	2020	N.A.	N.A.	ByteDance
The King of Fighters: All Stars	全明星激鬥	CCG	IP	2020	N.A.	N.A.	ByteDance
2. games developed by CMGE							
The World of Legend Thunder Empire	傳奇世界之雷霆霸業	MMORPG	IP	2018	1,981,249	771,765	
The Attack – Advanced Version	攻沙加強版	MMORPG	Non-IP	2018	N.A.	N.A.	
War Song – the Creation	熱血戰歌之創世	MMORPG	Non-IP	2019	N.A.	N.A.	
Thunder Empire 2	雷霆霸業 2	MMORPG	IP	2020	N.A.	N.A.	
Legend of Sword and Fairy – the Magnificence	仙劍:九野	CCG	IP	2020	N.A.	N.A.	
Legend of Sword and Fairy 7	仙劍奇俠傳 7	TRPG	IP	2020	N.A.	N.A.	
Legend of the Holy Dragon	聖龍傳奇	MMORPG	IP	2020	N.A.	N.A.	
Zork Reborn	魔域重生	MMORPG	IP	2020	N.A.	N.A.	
3. games developed by 3rd parties							
One Piece – the Road of the Strong	航海王強者之路	CCG	IP	2016	490,016	72,208	
The Land of the Dawn	曙光之境	MMORPG	Non-IP	2018	1,328,064	115,046	
The Story of the Flying Mortal H5	凡人飛仙傳 H5	ARPG	IP	2018	1,876,686	99,843	
Dragon Ball – Awakening	龍珠覺醒	CCG	IP	2019	982,408	91,375	
Martyn Palace	烈焰皇城	MMORPG	IP	2019	N.A.	N.A.	
Xuan Yuan Sword – the Origin	軒轅劍:劍之源	MMORPG	IP	2020	N.A.	N.A.	
Age of Myth Genesis	創世之爭	SLG	Non-IP	2020	N.A.	N.A.	
The New Legend Of The Condor Heroes: Iron Blood and Loyal Heart	新射雕群俠傳:鐵血丹心	CCG	IP	2020	N.A.	N.A.	
Life and Death Sniper: Zombie Frontier	生死狙擊之殭屍前線	STG	IP	2020	N.A.	N.A.	
Soul Land	斗羅大陸	MMORPG	IP	2020	N.A.	N.A.	
Incredible True Chasers	不思議修真	CCG	Non-IP	2020	N.A.	N.A.	

Source: Company data, AMTD Research

Key Financials

Figure 2: CMGE's P&L (RMB' 000)

	2017	2018	2019	2020E	2021E	2022E	1H19	1H20
No. of games active (EOP)	34	63	73	91	106	118	66	80
avg. total MAU	7,076,510	11,058,128	15,930,745	21,440,000	25,690,000	29,505,000	13,990,023	15,053,000
avg. total MPU	487,549	774,532	1,200,298	1,658,271	2,012,677	2,338,116	1,017,163	1,135,000
User conversion rate	6.9%	7.0%	7.5%	7.7%	7.8%	7.9%	7.3%	7.5%
Game publishing	1,012,791	1,400,454	2,553,189	3,613,681	4,332,306	5,123,673	1,307,087	1,489,101
Game development	0	177,946	421,254	632,859	848,282	1,085,659	218,431	220,779
Licensing of IP	0	17,804	61,858	121,629	147,900	206,629	3,600	4,156
Total Revenue	1,012,791	1,596,204	3,036,301	4,368,169	5,328,488	6,415,960	1,529,118	1,714,036
Cost of Sales	(672,336)	(1,063,734)	(1,953,103)	(2,872,709)	(3,553,175)	(4,259,083)	(1,000,660)	(1,182,578)
Gross Profit	340,455	532,470	1,083,198	1,495,460	1,775,313	2,156,878	528,458	531,458
Gross margin	33.6%	33.4%	35.7%	34.2%	33.3%	33.6%	34.6%	31.0%
S&M Expenses	(189,407)	(148,054)	(230,321)	(368,059)	(448,615)	(520,030)	(140,329)	(102,709)
Adj. G&A	(39,046)	(147,672)	(577,451)	(262,847)	(295,916)	(321,026)	(102,033)	(112,659)
Adj. operating expenses	(228,453)	(271,306)	(445,113)	(630,906)	(744,531)	(841,057)	(242,362)	(215,368)
Adj. EBIT	112,002	261,164	638,085	864,554	1,030,782	1,315,821	286,096	316,090
Adj. EBIT margin	11.1%	16.4%	21.0%	19.8%	19.3%	20.5%	18.7%	18.4%
Total Financial Costs	(1,220)	(10,053)	(15,072)	(30,943)	(30,943)	(30,943)	(5,437)	(20,650)
Interest Income	687	1,228	18,589	18,589	18,589	18,589	277	3,052
Fair value change	165,435	105,861	54,277	72,345	72,345	72,345	21,369	53,589
Share of JV & associates	2,002	13,630	8,416	8,837	9,279	9,743	(4,382)	5,379
Profit Before Income Taxes	265,051	356,047	343,623	935,369	1,102,039	1,387,542	292,929	301,459
Income Tax Expense	(56)	(40,074)	(100,410)	(140,305)	(165,306)	(208,131)	(43,050)	(25,398)
Minority/Non Controlling Interest	0	(4,928)	5,135	5,135	5,135	5,135	10,508	11,685
Net Income	307,464	311,045	248,348	800,199	941,868	1,184,546	260,387	287,746
Core net Profit	142,029	229,604	556,730	727,854	869,523	1,112,201	248,420	288,060
Core net profit margin	14.0%	14.4%	18.3%	16.7%	16.3%	17.3%	16.2%	16.8%
Core EPS (RMB)		0.128	0.295	0.309	0.366	0.468		
Core EPS (HKD)		0.145	0.327	0.340	0.402	0.514		

Source: Company data, AMTD Research estimates

Figure 3: CMGE's P&L, YoY

	2018	2019	2020E	2021E	2022E	1H19	1H20
avg. total MAU	56.3%	44.1%	34.6%	19.8%	14.9%	63.0%	7.6%
avg. total MPU	58.9%	55.0%	38.2%	21.4%	16.2%	68.1%	11.6%
Game publishing	38.3%	82.3%	41.5%	19.9%	18.3%	109.6%	13.9%
Game development		136.7%	50.2%	34.0%	28.0%	346.5%	1.1%
Licensing of IP		247.4%	96.6%	21.6%	39.7%	-	15.4%
Total Revenue	57.6%	90.2%	43.9%	22.0%	20.4%	127.4%	12.1%
Cost of Sales	58.2%	83.6%	47.1%	23.7%	19.9%	130.5%	18.2%
Gross Profit	56.4%	103.4%	38.1%	18.7%	21.5%	121.6%	0.6%
S&M Expenses	-21.8%	55.6%	59.8%	21.9%	15.9%	140.5%	-26.8%
Adj. G&A	278.2%	291.0%	22.4%	12.6%	8.5%	191.2%	10.4%
Adj. EBIT	133.2%	144.3%	35.5%	19.2%	27.7%	97.2%	10.5%
Total Financial Costs	724.0%	49.9%	105.3%	0.0%	0.0%	51.8%	279.8%
Interest Income	78.7%	1413.8%	0.0%	0.0%	0.0%	-70.9%	1001.8%
Profit Before Income Taxes	34.3%	-3.5%	177.6%	17.8%	26.1%	64.3%	2.9%
Income Tax Expense	71460.7%	150.6%	39.7%	17.8%	25.9%	174.9%	-41.0%
Net Income	1.2%	-20.2%	222.2%	17.7%	25.8%	60.1%	10.5%
Core net Profit	61.7%	142.5%	30.7%	19.5%	27.9%	89.4%	16.0%
Core EPS (RMB)		131.0%	5.0%	18.3%	27.9%		
Core EPS (HKD)		125.4%	3.8%	18.3%	27.9%		

Source: Company data, AMTD Research estimates

Comparables

Figure 4: Comparables

Date	8/28/2020	Price	Mkt cap	EV/Sales				P/E				EV/EBITDA				ROE	
		(LC)	(USD mn)	FY19	FY20E	FY21E	Sales growth '19-20	FY19	FY20E	FY21E	'19-20	FY19	FY20E	FY21E	'19-20	FY19	FY20E
mid-sized																	
302 HK	CMGE*	3.46	1,040	2.1x	1.5x	1.2x	44%	10.7x	10.2x	8.6x	2.1x	9.6x	6.8x	5.7x	41%	8.9	19.9
6820 HK	FriendTimes	3.84	1,084	3.7x	2.4x	1.9x	58%	16.6x	12.4x	9.9x	0.4x	13.5x	10.1x	7.6x	34%	44.2	33.4
1119 HK	iDreamsky	4.92	806	2.5x	2.1x	1.9x	7%	15.0x	10.9x	9.5x	0.3x	12.6x	10.9x	9.5x	15%	10.5	8.7
799 HK	IGG	8.88	1,409	1.7x	1.6x	1.6x	-5%	8.6x	7.2x	8.2x	0.4x	5.7x	4.1x	4.4x	38%	50.1	n.a.
2400 HK	XD Network	41.10	2,408	5.4x	4.3x	3.4x	40%	37.0x	29.9x	21.8x	1.3x	24.0x	18.5x	13.8x	30%	23.5	24.3
002174 CH	Youzu	20.90	2,788	5.6x	4.0x	3.6x	25%	21.6x	15.6x	13.5x	0.4x	74.1x	13.6x	11.5x	444%	5.4	n.a.
300315 CH	Ourpalm	9.12	3,663	14.3x	10.2x	7.8x	50%	65.1x	34.7x	23.2x	0.4x	65.5x	32.8x	21.3x	100%	17.2	11.9
Mean:				5.5x	4.1x	3.3x	29%	27.3x	18.5x	14.3x	0.5x	32.6x	15.0x	11.3x	110%	25.2	19.6
Median:				4.5x	3.2x	2.6x	33%	19.1x	14.0x	11.7x	0.4x	18.8x	12.3x	10.5x	36%	20.3	18.1
large-sized																	
EA US	EA	140.87	40,683	6.9x	5.9x	5.7x	18%	30.2x	25.8x	23.9x	1.5x	21.6x	16.8x	16.1x	28%	11.0	-1.4
ATVI US	Blizzard	83.21	64,227	9.3x	7.8x	7.6x	22%	44.2x	26.1x	25.4x	0.4x	27.1x	18.2x	17.6x	49%	12.4	8.4
700 HK	Tencent	540.50	668,247	12.6x	9.9x	8.0x	28%	49.0x	37.9x	30.3x	1.3x	30.5x	26.9x	22.4x	13%	24.7	n.a.
NTES US	NetEase	504.17	69,679	7.0x	5.7x	5.0x	12%	34.1x	26.8x	23.6x	1.0x	26.0x	21.1x	18.3x	23%	39.8	n.a.
BILI US	Bilibili	47.39	16,370	16.4x	10.1x	7.1x	67%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	231%	-18.7	n.a.
002555 CH	Wuhu Sanqi	47.60	14,645	7.1x	5.5x	4.7x	38%	47.6x	35.8x	30.1x	1.1x	36.7x	27.3x	23.2x	35%	32.5	n.a.
002624 CH	Perfect World	37.82	10,685	8.7x	6.7x	5.8x	23%	32.7x	28.5x	23.7x	1.9x	48.7x	26.2x	21.8x	86%	16.7	n.a.
Mean:				9.7x	7.4x	6.3x	30%	39.6x	30.1x	26.2x	1.2x	31.8x	22.8x	19.9x	66%	16.9	3.5
Median:				8.7x	6.7x	5.8x	23%	39.2x	27.6x	24.7x	1.2x	28.8x	23.7x	20.0x	35%	16.7	3.5
Overall Mean:				7.8x	5.9x	4.9x	30%	33.5x	24.3x	20.3x	0.9x	32.2x	18.9x	15.6x	87%	20.7	14.2
Overall Median:				7.0x	5.7x	5.0x	25%	33.4x	26.4x	23.4x	0.7x	26.6x	18.3x	16.9x	35%	17.2	10.3

Priced as of 28 Aug 2020; Source: Bloomberg Estimates, *AMTD Research Estimates for AMTD Coverage Stocks

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Buy	Stock with potential return of over 20% over the next 12 months
Hold	Stock with potential return of -20% to +20% over the next 12 months
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