

CMGE

Earnings Review

Solid 1H results, upbeat outlook on the back of strong IP pipeline, raise PT to HK\$6.9

Pipeline + execution drive future growth, raise PT to HK\$6.9

We continue to like CMGE as a top pick in the mid-sized game publisher on its distinctive pipeline and robust execution. On the business side, the improvement of game experience brought by 5G and the trend of fragmented entertainment consumption will continue to drive the growth of mobile games. On the operating side, given that CMGE's continued investment in IP and self-development capabilities, we expect its operating leverage will continue to be expanding along with improving margins in FY21E/22E. We project CMGE's adjusted EPS (excl. fair value gain/loss) will reach RMB0.408 in FY22E at a CAGR of 41.6% during FY20-22E. By applying a 13x FY22E P/E and HK\$0.5 for the strategic investment for its IP ecosystem, we derive a new PT of HK\$6.9.

Top hits start to contribute meaningful revenue in FY21E/22E

CMGE officially launched The New Legend Of The Condor Heroes: Iron Blood and Loyal Heart (新射雕群俠傳之鐵血丹心) in 2H20. Within the first month, under the license of Louis Cha Leung-yung (金庸), this IP-based game delivered an excellent experience and collected more than RMB300mn of gross billings, according to CNG. Another top hit – Soul Land: God of Battle Arise (斗羅大陸—斗神再臨) has been listed on best-selling recommendation of Apple's App Store several times since its debut in April 2021. In addition, another 3 games exclusively partnering with Tencent and ByteDance, which have been just launched this May/June, will contribute meaningful revenue in FY21E/22E, in our view.

Continuous investment in IP, self-development, strategic cooperation

CMGE continues to acquire high-quality IPs. As of 30 Jun 2021, CMGE held a total of 118 IPs (50 licensed IPs/68 proprietary IPs), the largest number of IPs among the game companies in China. In the meanwhile, the company invested three quality game developers in 1H21 to further building its self-development capability. On the other hand, video streaming platform – Bilibili acquired a further stake in CMGE to 9.32% as of 30 Jun 2021. The strategic cooperation with Bilibili will enhance the company's IP-based game publishing and development business, in our view.

1H21 results recap

CMGE reported solid 1H21 results. Total revenue came in at RMB2.18bn, up 27.2% YoY, among which game development revenue jumped by 156.8% YoY to RMB567mn. Gross profit grew strongly by 58.0% YoY with a GPM of 38.5% vs. 31.0% in 1H20 and 32.0% in the full year of FY20, thanks to increasing proportion of self-development and publishing games. Opex ratio rose slightly to 18.4% from 16.7% in the full year of FY20, due to an increasing marketing expenses. Adjusted net profit was RMB388mn by excluding fair value gain/loss of strategic investment, up 34.8% YoY, compared to RMB288mn in 1H20.

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\$)	6.9
Previous price target (HK\$)	5.0
Current price (HK\$, 1 Sep 2021)	3.7
Total upside/downside %	89%
Market cap (HK\$ m)	10,131
Market cap (US\$ m)	1,303
Avg daily turnover (HK\$ m)	94

Source: Bloomberg, AMTD research estimates

Key forecasts

(RMB m)	2020	2021e	2022e	2023e
Revenue	3,820	5,203	6,330	7,466
yoy %	26%	36%	22%	18%
Adj. net profit	477	789	1,045	1,289
yoy %	-14%	65%	32%	23%
Adj. EPS (RMB)	0.20	0.32	0.41	0.50
Adj. NPM	12%	15%	17%	17%

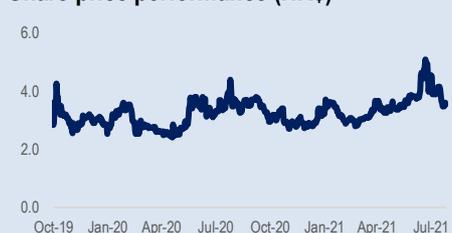
Source: Company data, AMTD research estimates

Valuation

	FY20	FY21e	FY22e	FY23e
P/S	2.0	1.5	1.2	1.1
P/E	14.9	9.5	7.4	6.0
EV/EBITDA	10.2	6.2	4.7	4.2
Dividend yield	2.3%	3.5%	4.2%	5.0%
ROE	16.5%	20.9%	21.9%	23.7%

Source: Bloomberg, AMTD research estimates

Share price performance (HK\$)



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Key Financials

Figure 1: CMGE's P&L (RMB' 000)

	2018	2019	2020	2021E	2022E	2023E	1H19	1H20	1H21
Game publishing	1,400,454	2,553,189	2,977,901	4,228,068	5,067,273	5,694,545	1,307,087	1,489,101	1,525,296
Game development	177,946	421,254	730,301	829,091	1,069,091	1,505,455	218,431	220,779	567,036
Licensing of IP	17,804	61,858	112,124	145,761	193,862	265,591	3,600	4,156	87,801
Total Revenue	1,596,204	3,036,301	3,820,326	5,202,920	6,330,226	7,465,591	1,529,118	1,714,036	2,180,133
Cost of Sales	(1,063,734)	(1,953,103)	(2,597,062)	(3,277,840)	(3,924,740)	(4,591,339)	(1,000,660)	(1,182,578)	(1,340,502)
Gross Profit	532,470	1,083,198	1,223,264	1,925,081	2,405,486	2,874,253	528,458	531,458	839,631
<i>Gross margin</i>	33.4%	35.7%	32.0%	37.0%	38.0%	38.5%	34.6%	31.0%	38.5%
S&M Expenses	(148,054)	(230,321)	(341,497)	(520,292)	(601,371)	(671,903)	(140,329)	(102,709)	(225,264)
Adj. G&A	(123,252)	(214,792)	(297,962)	(424,038)	(519,079)	(597,247)	(102,033)	(112,659)	(175,629)
Adj. operating expenses	(271,306)	(445,113)	(639,459)	(944,330)	(1,120,450)	(1,269,151)	(242,362)	(215,368)	(400,893)
Adj. EBIT	261,164	638,085	583,805	980,750	1,285,036	1,605,102	286,096	316,090	438,738
<i>Adj. EBIT margin</i>	16.4%	21.0%	15.3%	18.9%	20.3%	21.5%	18.7%	18.4%	20.1%
Total Financial Costs	(10,053)	(15,072)	(35,228)	(35,595)	(35,595)	(35,595)	(5,437)	(20,650)	(11,271)
Interest Income	1,228	18,589	21,202	20,000	20,000	20,000	277	3,052	6,925
Fair value change	105,861	54,277	329,454	329,454	329,454	329,454	21,369	53,589	13,460
Share of JV & associates	13,630	8,416	(12,576)	(13,205)	(13,865)	(13,865)	(4,382)	5,379	(2,310)
Profit Before Income Taxes	356,047	343,623	716,802	1,191,825	1,503,267	1,814,669	292,929	301,459	422,616
Income Tax Expense	(40,074)	(100,410)	(26,602)	(113,223)	(150,327)	(217,760)	(43,050)	(25,398)	(44,366)
Minority/Non Controlling Interest	(4,928)	5,135	11,119	22,000	22,000	22,000	10,508	11,685	15,282
Net Income	311,045	248,348	701,319	1,100,602	1,374,940	1,618,909	260,387	287,746	393,532
Adj. net Profit	229,604	556,730	477,496	789,358	1,045,486	1,289,455	248,420	288,060	388,320
<i>Adj. net profit margin</i>	14.4%	18.3%	12.5%	15.2%	16.5%	17.3%	16.2%	16.8%	17.8%
Adj. EPS (RMB)	0.128	0.295	0.204	0.320	0.408	0.504			
Adj. EPS (HKD)	0.145	0.327	0.224	0.385	0.480	0.592			

Source: Company data, AMTD Research estimates

Figure 2: CMGE's P&L, YoY

	2019	2020	2021E	2022E	2023E	1H19	1H20	1H21
Game publishing	82.3%	16.6%	42.0%	19.8%	12.4%	109.6%	13.9%	2.4%
Game development	136.7%	73.4%	13.5%	28.9%	40.8%	346.5%	1.1%	156.8%
Licensing of IP	247.4%	81.3%	30.0%	33.0%	37.0%	-	15.4%	2012.6%
Total Revenue	90.2%	25.8%	36.2%	21.7%	17.9%	127.4%	12.1%	27.2%
Cost of Sales	83.6%	33.0%	26.2%	19.7%	17.0%	130.5%	18.2%	13.4%
Gross Profit	103.4%	12.9%	57.4%	25.0%	19.5%	121.6%	0.6%	58.0%
S&M	55.6%	48.3%	52.4%	15.6%	11.7%	140.5%	-26.8%	119.3%
Adj. G&A	74.3%	38.7%	42.3%	22.4%	15.1%	191.2%	10.4%	55.9%
Adj. EBIT	144.3%	-8.5%	68.0%	31.0%	24.9%	97.2%	10.5%	38.8%
Total Financial Costs	49.9%	133.7%	1.0%	0.0%	0.0%	51.8%	279.8%	-45.4%
Interest Income	1413.8%	14.1%	-5.7%	0.0%	0.0%	-70.9%	1001.8%	126.9%
Profit Before Income Taxes	-3.5%	108.6%	66.3%	26.1%	20.7%	64.3%	2.9%	40.2%
Income Tax Expense	150.6%	-73.5%	325.5%	32.8%	44.9%	174.9%	-41.0%	74.7%
Net Income	-20.2%	182.4%	56.9%	24.9%	17.7%	60.1%	10.5%	36.8%
Adj. Net Profit	142.5%	-14.2%	65.3%	32.4%	23.3%	89.4%	16.0%	34.8%
Adj. EPS (RMB)	131.0%	-30.9%	57.0%	27.7%	23.3%			
Adj. EPS (HKD)	125.4%	-31.6%	72.1%	24.7%	23.3%			

Source: Company data, AMTD Research estimates

Valuation

Figure 3: Valuation

Business	Method	Assumptions			Per share	Per share	%
					(RMB)	(HK\$)	
Game publishing	P/E	FY22E EPS 0.408	Multiple 13.0x		5.3	6.4	92%
Strategic investments	P/B	Book value 1,733	Multiple 1.0x	Discount 35%	0.4	0.5	8%
Total						6.9	

Source: Company data, assuming HKDCNY of 0.83, AMTD Research

Comparables

Figure 4: Comparables

Date	1/9/2021	Price (LC)	Mkt cap (USD mn)	EV/Sales		Sales Growth		P/E		PEG		EV/EBITDA		EBITDA Growth		ROE	
				FY20	FY21E	FY22E	20-21E	FY20	FY21E	FY22E	'20-21E	FY20	FY21E	FY22E	20-21E	FY20	FY21E
<i>mid-sized</i>																	
302 HK	CMGE TECHNOLOGY*	3.66	1,303	1.8x	1.3x	1.1x	36%	14.9x	9.5x	7.4x	0.2x	10.2x	6.2x	4.7x	65%	16.5	20.9
6820 HK	FRIENDTIMES INC	1.30	365	0.8x	0.6x	0.5x	32%	4.9x	4.0x	3.1x	0.2x	3.0x	2.7x	2.2x	11%	35.0	30.4
1119 HK	IDREAMSKY TECHNO	4.71	797	2.2x	2.2x	2.0x	9%	34.5x	24.5x	15.1x	0.6x	NA	8.5x	10.1x	NA	(12.6)	4.5
799 HK	IGG INC	7.73	1,187	1.3x	1.1x	1.0x	19%	4.5x	8.3x	7.5x	NA	3.0x	3.1x	2.8x	-3%	62.0	NA
2400 HK	XD INC	45.20	2,792	6.0x	5.8x	4.5x	10%	531.8x	NA	305.4x	NA	74.3x	NA	54.1x	NA	0.4	(1.9)
002174 CH	YOUZU INTERACT-A	12.81	1,816	2.4x	2.3x	2.5x	4%	NA	13.9x	19.0x	NA	43.2x	9.6x	19.3x	350%	(3.7)	NA
300315 CH	OURPALM COLT-A	3.69	1,575	4.4x	3.9x	3.6x	13%	27.3x	13.5x	11.5x	0.1x	243.8x	18.7x	15.4x	1202%	NA	NA
Mean: (excl CMGE)				2.9x	2.7x	2.4x	14%	120.6x	12.8x	60.3x	0.3x	73.5x	8.5x	17.3x	390%	16.2	11.0
Median: (excl CMGE)				2.3x	2.3x	2.2x	11%	27.3x	13.5x	13.3x	0.2x	43.2x	8.5x	12.7x	180%	0.4	4.5
<i>large-sized</i>																	
EA US	ELECTRONIC ARTS	146.43	41,671	7.1x	5.4x	5.0x	33%	6.4x	22.2x	20.0x	0.0x	30.6x	15.4x	14.3x	99%	8.5	6.7
ATVI US	ACTIVISION BLIZZ	82.30	64,005	7.2x	6.6x	5.9x	9%	3.6x	21.5x	19.1x	0.0x	17.9x	15.2x	13.1x	18%	15.8	12.9
700 HK	TENCENT	488.40	602,888	8.6x	7.1x	6.0x	29%	34.2x	28.7x	23.6x	1.2x	18.3x	20.6x	17.8x	-11%	28.1	NA
NTE5 US	NETEASE INC-ADR	96.90	65,018	4.9x	4.1x	3.6x	25%	4.8x	24.0x	21.2x	0.0x	19.9x	18.8x	15.6x	6%	16.8	NA
BILI US	BILIBILI INC-ADR	84.56	32,502	16.3x	10.1x	7.0x	72%	NA	NA	NA	NA	NA	NA	NA	NA	(41.1)	NA
002555 CH	WUHU SANQI IN-A	18.76	6,441	2.7x	2.2x	1.9x	21%	12.7x	14.4x	11.8x	0.3x	12.2x	11.2x	9.2x	9%	42.3	NA
002624 CH	PERFECT WORLD -A	14.76	4,432	2.8x	2.7x	2.2x	6%	16.4x	16.7x	11.2x	NA	16.8x	15.0x	10.4x	11%	15.2	NA
Mean: (excl CMGE)				7.1x	5.5x	4.5x	28%	13.0x	21.3x	17.8x	0.3x	19.3x	16.0x	13.4x	22%	12.2	9.8
Median: (excl CMGE)				7.1x	5.4x	5.0x	25%	9.6x	21.8x	19.6x	0.0x	18.1x	15.3x	13.7x	10%	15.8	9.8
Overall Mean: (excl CMGE)				5.1x	4.2x	3.5x	22%	61.9x	17.4x	39.0x	0.3x	43.9x	12.6x	15.4x	169%	13.9	10.5
Overall Median: (excl CMGE)				4.4x	3.9x	3.6x	19%	12.7x	16.7x	17.0x	0.1x	18.3x	15.0x	13.7x	11%	15.5	6.7

Priced as of 1 Sep 2021; Source: Bloomberg Estimates, *AMTD Research Estimates for AMTD Coverage Stocks

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

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