

# FriendTimes Inc. (6820 HK)

## Moving to strong FY20E with eye-catching ToE

FriendTimes ("FT") delivered solid FY19 results, with revenue/adj. net profit +15% YoY/+23% YoY in 4Q19, -2%/+3% compared to our estimates. FT announced final dividend of HK\$0.1 per share (to be paid by 30 Jun), suggesting 4% yield ratio. We turn more confident on its continuously rising grossing of "Tale of Empress" in 1H20E. Benefiting from COVID-19, FT was expected to see strong 1H20E, with eye-catching ToE and solid existing games. We slightly raised its earnings by 1%/1% in FY20/21E, and lifted FT's TP from HK\$3.1 to HK\$3.3 (implying 11.6x FY20E P/E). Valuation at 7.6x FY20E P/E is still attractive.

- **Strong FY19 financials.** FY19 revenue grew 15% YoY, in line with our estimates. Net profit grew 23% YoY, 3% above our estimates. FY19 solid performance was primarily on contribution of Royal Chaos and Rise of Queendom. We are also impressed by its overseas revenue with 106% YoY growth, accounting for 33.7% of total revenue. Looking ahead, we expect FT's strong momentum to continue in FY20E, thanks to ToE(<浮生为卿歌>)'s eye-catching performance and solid existing games with COVID-19 benefit.
- **<Tale of Empress> to hit Top12 in iOS grossing rank.** We keep confident on ToE's grossing momentum. According to App Annie, ToE's iOS grossing rank kept stable at around Top 12-20 in Mar (vs. Top30-50 in Jan, Top 20-25 in Feb), and climbed to Top 12 on 26 Mar 2020. Given its wide popularity and epidemic benefit, we estimate its monthly grossing up to around RMB70-80mn in Mar (vs. RMB40mn/RMB60mn in Jan/Feb). Its daily grossing was estimated to be RMB2.5-3.5mn in Mar (from RMB0.6-1mn in Jan, RMB2mn in Feb). We see high visibility for its daily grossing to continuously climb in 1H20E.
- **Four new titles rollout ahead in 2020.** Apart from new language versions, there are four new self-developed titles in 2020 pipeline, including modern woman, casual elimination and female Xianxia games. (e.g. Fate: The Loved Journey <此生无白>). For conservative estimates, we forecast insignificant contribution from new titles except for ToE and Yokai Kitchen (<精灵食肆>). But we keep positive on its solid pipeline and further grossing upside.
- **Maintain BUY.** Given its stronger performance of key titles, we slightly raised its earnings by 1%/1% in FY20/21E, and lifted our TP from HK\$3.1 to HK\$3.3 (implying 11.6x FY20E P/E), still largely lower than industry average of 20x. We believe the epidemic and strong 1H20E should help it re-rate. Further catalysts: 1) rising ToE; 2) launch of new titles; and 3) benefit from COVID-19.

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	1,464	1,689	2,276	2,703	3,126
YoY change (%)	109%	15%	35%	19%	16%
Adj. net income (RMB mn)	337	416	561	673	782
Adj. EPS (RMB)	0.15	0.19	0.25	0.31	0.36
YoY growth (%)	185%	23%	35%	20%	16%
P/E (x)	12.7	10.3	7.6	6.3	5.4
P/S (x)	3.2	2.8	2.1	1.8	1.5
Yield (%)	0.0	0.0	4.0	4.0	4.0
ROE (%)	59%	32%	27%	25%	22%
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIS estimates

### BUY (Maintain)

Target Price	HK\$3.3
(Previous TP)	HK\$3.1
Up/Downside	+52.8%
Current Price	HK\$2.16

### China Internet Sector

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#### Stock Data

Mkt Cap (HK\$ mn)	4,726
Avg 3 mths t/o (HK\$ mn)	12.27
52w High/Low (HK\$)	2.68/0.75
Total Issued Shares (mn)	2,188

Source: Bloomberg

#### Shareholding Structure

Eternal Heart Holding	42.8%
Warm Sunshine	8.6%
Ling Long Holding	8.5%

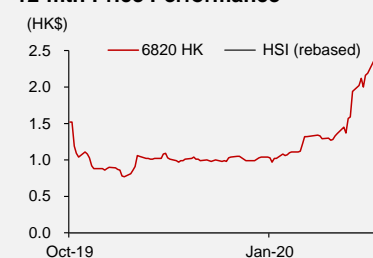
Source: Bloomberg

#### Share Performance

	Absolute	Relative
1-mth	72.7%	80.8%
3-mth	135.1%	137.0%
6-mth	NA	NA

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

#### Related Reports

1. "Tale of Empress" strong momentum to continue – 28 Feb 2020
2. Eyes on strong <Tale of Empress> – 10 Feb 2020
3. Initiation: Surfing on the female-oriented games tailwind – 12 Dec 2019

**Figure 1: FT's FY19 financials review**

RMB mn, Dec-YE	FY18	FY19	YoY
<b>Revenue</b>			<b>15%</b>
Cost of sales			8%
<b>Gross profit</b>			<b>20%</b>
Sales and marketing expenses			-7%
Research and development expenses			64%
General and administrative expenses			91%
Other income			-34%
<b>Operating (loss)/profit</b>			<b>23%</b>
Finance costs			-77%
Share of loss of an associate			-99%
Changes in fair value of equity investment measured at fair value through	-		-
<b>Profit before taxation</b>			<b>21%</b>
Income tax expense			-8%
<b>Profit for the year</b>			<b>23%</b>
Non-controlling interests		-	-
<b>Net profit attributable to equity shareholders</b>			<b>23%</b>
<b>Margin Analysis</b>			
Gross margin	63%	65%	+2ppts
Operating margin	25%	26%	+1ppts
Net margin	23%	25%	+2ppts

Source: Company data

**Figure 2: Earnings revision**

RMB mn, Dec-YE	New		Old		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	2,276	2,703	2,276	2,703	0.0%	0.0%
Gross Profit	1,477	1,760	1,477	1,760	0.0%	0.0%
Operating Profit	605	729	606	729	-0.1%	0.0%
Net profit	561	673	558	670	0.6%	0.6%
EPS (RMB)	0.25	0.31	0.25	0.30	1.2%	1.3%
Gross Margin	65%	65%	65%	65%	+0.0ppts	+0.0ppts
Operating Margin	27%	27%	27%	27%	+0.0ppts	+0.0ppts
Net Margin	25%	25%	24%	25%	+0.0ppts	+0.0ppts

Source: Company data, CMBIS estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Revenue</b>	<b>1,464</b>	<b>1,689</b>	<b>2,276</b>	<b>2,703</b>	<b>3,126</b>
Games	1,464	1,689	2,276	2,703	3,126
Others	0	0	0	0	0
<b>COGS</b>	<b>(546)</b>	<b>(587)</b>	<b>(799)</b>	<b>(943)</b>	<b>(1,085)</b>
<b>Gross profit</b>	<b>918</b>	<b>1,102</b>	<b>1,477</b>	<b>1,760</b>	<b>2,041</b>
S&M	(422)	(393)	(660)	(784)	(907)
R&D	(136)	(224)	(205)	(243)	(281)
G&A	(32)	(62)	(46)	(49)	(56)
Other income	36	24	39	45	45
<b>Operating profit</b>	<b>363</b>	<b>447</b>	<b>605</b>	<b>729</b>	<b>849</b>
Finance costs	(1)	(0)	(4)	(6)	(9)
Other gains, net	(1)	(8)	(0)	(0)	(0)
<b>Pre-tax Income</b>	<b>361</b>	<b>438</b>	<b>602</b>	<b>722</b>	<b>839</b>
Income Tax	(25)	(23)	(41)	(49)	(57)
MI	0	-	-	-	-
<b>Net profit</b>	<b>337</b>	<b>416</b>	<b>561</b>	<b>673</b>	<b>782</b>
<b>Adj. net profit</b>	<b>337</b>	<b>416</b>	<b>561</b>	<b>673</b>	<b>782</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Pre-tax Income</b>	<b>361</b>	<b>438</b>	<b>602</b>	<b>722</b>	<b>839</b>
D&A	9	10	6	11	44
Change in WC	23	(51)	(38)	(15)	(15)
Others	(49)	(23)	(53)	(64)	(76)
<b>Operating CF</b>	<b>344</b>	<b>375</b>	<b>517</b>	<b>653</b>	<b>792</b>
Capex	(61)	(80)	(70)	(60)	(60)
Others	6	9	15	22	28
<b>Investing CF</b>	<b>(55)</b>	<b>(71)</b>	<b>(55)</b>	<b>(38)</b>	<b>(32)</b>
Equity raised	-	500	-	-	-
Change of debts	-	0	60	48	48
Others	(124)	(10)	(4)	(6)	(9)
<b>Financing CF</b>	<b>(124)</b>	<b>490</b>	<b>56</b>	<b>42</b>	<b>39</b>
<b>Net change in cash</b>	<b>165</b>	<b>794</b>	<b>519</b>	<b>657</b>	<b>799</b>
Cash (beg of yr)	305	473	1,266	1,785	2,442
FX	2	-	-	-	-
<b>Cash (end of yr)</b>	<b>473</b>	<b>1,266</b>	<b>1,785</b>	<b>2,442</b>	<b>3,241</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Non-current assets</b>	<b>113</b>	<b>246</b>	<b>255</b>	<b>304</b>	<b>320</b>
Fixed asset	78	202	223	273	289
Right-of-use assets	13	9	3	3	2
Intangible assets	1	8	1	1	1
Others	20	28	28	28	28
<b>Current assets</b>	<b>623</b>	<b>1,265</b>	<b>2,007</b>	<b>2,706</b>	<b>3,548</b>
Cash	473	893	1,785	2,442	3,241
Trade receivables	132	219	205	243	281
Other current assets	18	153	17	21	25
<b>Current liabilities</b>	<b>149</b>	<b>196</b>	<b>202</b>	<b>273</b>	<b>344</b>
Bank loans	-	-	60	108	156
Trade and other payables	82	135	32	38	43
Lease liabilities	5	3	3	3	3
Other current liabilities	62	58	107	125	142
<b>Non-current liabilities</b>	<b>14</b>	<b>9</b>	<b>20</b>	<b>27</b>	<b>28</b>
Contract liabilities	11	9	20	24	28
Lease liabilities	2	-	-	-	-
Others	-	-	-	-	-
<b>Total Equity</b>	<b>573</b>	<b>1,307</b>	<b>2,040</b>	<b>2,713</b>	<b>3,496</b>

Source: Company data, CMBIS estimates

### Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Sales mix (%)</b>					
Games	100.0	100.0	100.0	100.0	100.0
Others	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Growth rate (%)</b>					
Revenue	109.1	15.3	34.7	18.8	15.7
Gross profit	112.4	20.0	34.0	19.1	16.0
EBIT	146.6	23.0	35.5	20.4	16.4
Net profit	185.4	23.4	35.0	20.1	16.2
<b>P&amp;L ratios (%)</b>					
Gross Margin	62.7	65.2	64.9	65.1	65.3
Pre-tax margin	24.7	25.9	26.4	26.7	26.9
Adj. net margin	23.0	24.6	24.6	24.9	25.0
Effective tax rate	6.8	5.2	6.8	6.8	6.8
<b>Returns (%)</b>					
ROE	58.7	31.8	27.5	24.8	22.4
ROA	45.7	27.5	24.8	22.4	20.2

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