

Strawbear Entertainment (2125 HK)

Content innovation makes difference

We see high visibility on Strawbear's secular rev growth, backed by its platform business model, strong content pipeline, and greater Made-to-Order (MtO) contribution. We forecast Strawbear to deliver 46%/49% rev/earnings CAGR during FY20-23E, with To-B business as primary contributor while To-C to be long-term driver. Initiate with BUY with DCF-based TP HK\$17.0.

- **A content production boutique backed by iQIYI.** Strawbear is China's Top 4 drama series producer and distributor in FY19, according to Frost Sullivan. With its investment and distribution capabilities, Strawbear broadcasted 12 drama series (3 MtO and 3 self-produced) in 2020. We forecast Strawbear to deliver 46% rev CAGR in FY20-23E, by leveraging its improving production quality, diverse IP reserves, and resource integration capabilities.
- **Strong visibility in MtO content pipeline.** Strawbear has ramped up its MtO production since 2020, which we believe can better cater to diverse, evolving audience preferences, and alleviate capital pressure. As Strawbear launched its well-acclaimed Spirit Realm <灵域> and Breath of Destiny <一起深呼吸> in 1Q21, we see high visibility in its MtO rev growth, coupled with at least five MtO series in the pipeline. We anticipate MtO to be Strawbear's primary driver, with 95% rev CAGR in FY20-23E (70.2% rev mix in FY23E vs. 29.4% in 2020). Backed by Strawbear's production and content selection capabilities, we expect its self-produced/ outright-purchased rev to grow at 6%/ 23% CAGR in FY2020-23E (20.9%/ 6.8% rev mix in FY23E).
- **To-C model to unlock long-term upside.** While To-B business serves as the primary contributor in the short run, we anticipate initial fruits from To-C initiatives with shootings for two series to start this year. If executed well, To-C business can become its second growth curve, as rev-sharing mode combine producer and online channel's interest to co-launch better content. Strawbear's future exploration in digital music and idol economy may also unlock long-term TAM. For conservative estimate (only factoring in To-B business), we forecast its adj. net income to grow at 49% CAGR in 2020-23E, with adj. net margin at 14.8% in FY23E.
- **Initiate with BUY.** We set our DCF-based TP at HK\$17.0 (implying 35x/28x FY21/22 P/E), in line with industry average. Further catalysts may come from solid earnings result, faster-than-expected content launch, and development of new business initiatives.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	765	952	1,871	2,364	2,944
YoY growth (%)	12.7	24.5	96.5	26.3	24.5
Adj. net income (RMB mn)	65	131	278	351	436
EPS (RMB)	NA	NA	0.40	0.50	0.62
YoY growth (%)	NA	NA	NA	24.7	23.2
Consensus EPS (RMB)	NA	NA	0.45	0.56	0.69
P/E (x)	65.9	32.9	26.6	21.4	17.3
P/S (x)	5.6	4.5	4.0	3.2	2.6
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	38.4	62.5	21.2	21.1	20.8
Net gearing (%)	37.4	28.3	Net cash	Net cash	Net cash

Source: Company data, CMBIS estimates, Bloomberg. EPS, ROE refers to adj. net income.

BUY (Initiation)

Target Price	HK\$17.0
Up/Downside	+20.1%
Current Price	HK\$14.2

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Stock Data

Mkt Cap (HK\$ mn)	9,742
Avg 3 mths t/o (HK\$ mn)	22.79
52w High/Low (HK\$)	15.20/ 5.85
Total Issued Shares (mn)	688

Source: Bloomberg

Shareholding Structure

Leading Glory Inv	42.22%
Taurus Holding	14.15%
Glesason Global	10.70%

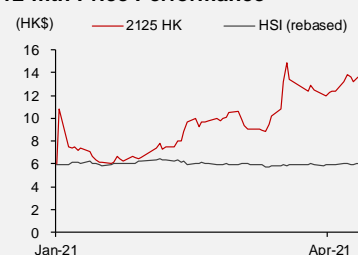
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	43.1%	37.3%
3-mth	89.3%	96.4%
6-mth	NA	NA

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Table of contents

Investment Thesis.....	3
Focus Charts	4
Company Overview	5
A content production boutique	5
Investment Summary.....	8
Unique creation ecosystem with valuable IPs and integrated resources	8
Strong pipeline with made-to-order biz as long-term driver	11
Capturing To-C model opportunities to unlock monetization	13
Financial Analysis.....	16
Revenue Breakdown	16
Income Statement.....	17
Balance Sheet	18
Cash Flow and Working Capital.....	19
Valuation.....	20
Financial Summary	22

Investment Thesis

A content production boutique backed by iQIYI.

Strawbear is China's Top 4 drama series producer and distributor in FY19, according to Frost Sullivan. With its investment and distribution capabilities, Strawbear broadcasted 12 drama series (3 MtO and 3 self-produced) in 2020. We forecast Strawbear to deliver 46% rev CAGR in FY20-23E, by leveraging its improving production quality, diverse IP reserves, and resource integration capabilities.

Strong visibility in MtO content pipeline.

Strawbear has ramped up its MtO production since 2020, which we believe can better cater to diverse, evolving audience preferences, and alleviate capital pressure. As Strawbear launched its well-acclaimed Spirit Realm <灵域> and Breath of Destiny <一起深呼吸> in 1Q21, we see high visibility in its MtO rev growth, coupled with at least five MtO series in the pipeline. We anticipate MtO to be Strawbear's primary driver, with 95% rev CAGR in FY20-23E (70.2% rev mix in FY23E vs. 29.4% in 2020). Backed by Strawbear's production and content selection capabilities, we expect its self-produced/ outright-purchased rev to grow at 6%/ 23% CAGR in FY2020-23E (20.9%/ 6.8% rev mix in FY23E).

To-C model to unlock long-term upside.

While To-B business serves as the primary contributor in the short run, we anticipate initial fruits from To-C initiatives with shootings for two series to start this year. If executed well, To-C business can become its second growth curve, as rev-sharing mode combine producer and online channel's interest to co-launch better content. Strawbear's future exploration in digital music and idol economy may also unlock long-term TAM. For conservative estimate (only factoring in To-B business), we forecast its adj. net income to grow at 49% CAGR in 2020-23E, with adj. net margin at 14.8% in FY23E.

Initiate with BUY.

We set our DCF-based TP at HK\$17.0 (implying 35x/28x FY21/22 P/E), in line with industry average. Further catalysts may come from solid earnings result, faster-than-expected content launch, and development of new business initiatives.

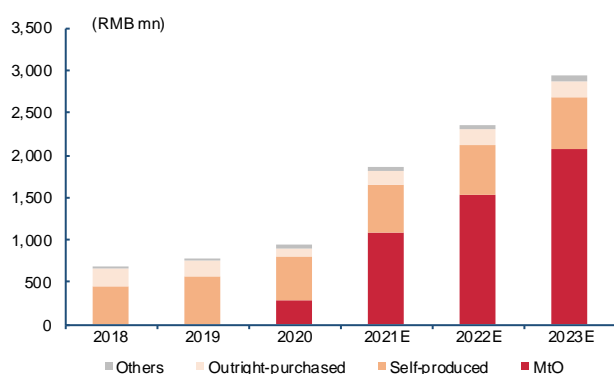
Focus Charts

Figure 1: Overview of Strawbear



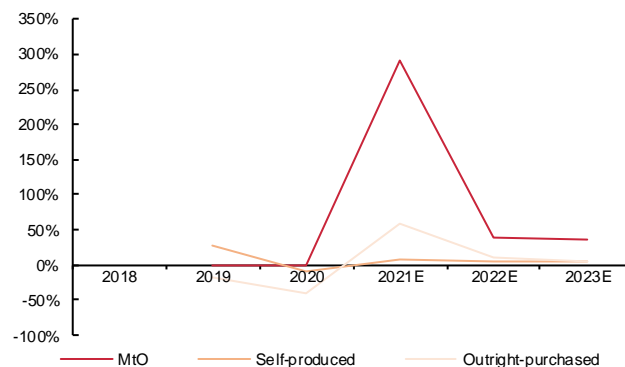
Source: Company data, Frost & Sullivan
Note: 1) As of Mar 2021

Figure 2: Rev estimates



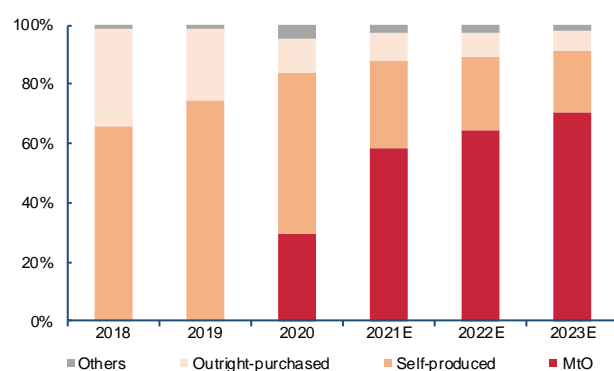
Source: Company data, CMBIS estimates

Figure 3: Rev growth breakdown



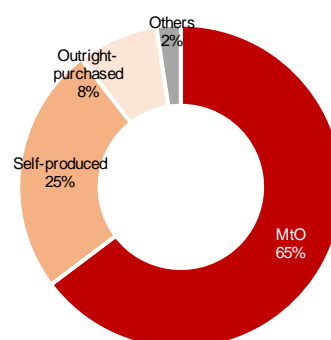
Source: Company data, CMBIS estimates
Note: Other rev growth is not included for clearer demonstration

Figure 4: Rev mix trend



Source: Company data, CMBIS estimates

Figure 5: FY22E revenue breakdown



Source: Company data, CMBIS estimates

Company Overview

A content production boutique

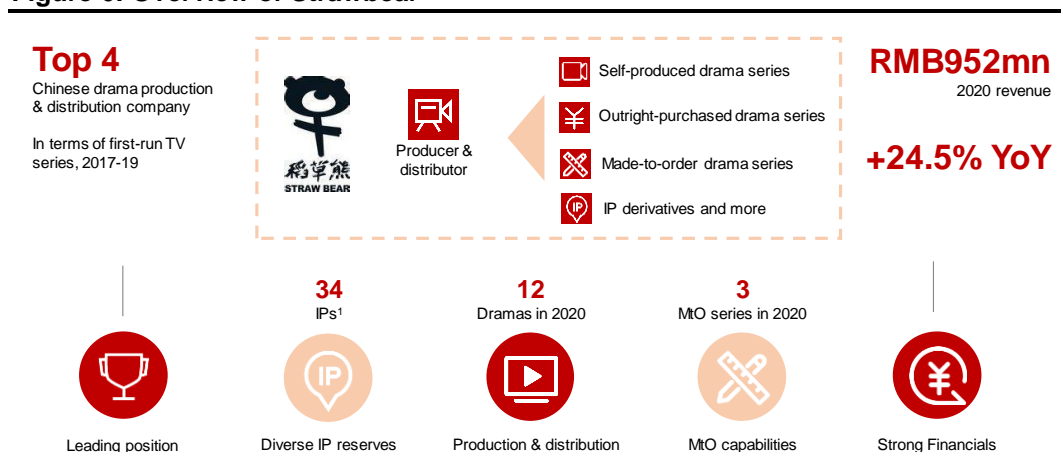
A leading drama series producer and distributor

Founded in 2014, Strawbear is a major drama series producer and distributor in China. With its platform business model, Strawbear integrates industry resources covering the investment, development, production, and distribution of TV and web series.

Strawbear generates revenue primarily from self-produced, outright-purchased, and Made-to-Order (MtO) drama series. Leveraging its diverse IP reserve, Strawbear also develops IP derivatives such as RPG and toys. Strawbear's revenue achieved RMB952mn in 2020, with 29%/ 54% rev mix from MtO/ self-produced drama series.

According to Frost & Sullivan, Strawbear was the Top 4 Chinese drama series producer and distributor regarding the number of first-run broadcast TV series in 2019, with 6.0% market share. Strawbear also ranked Top 6 in drama series rev/ first-run and re-run episode length, representing 1.8%/ 2.1% market share. We expect Strawbear to gain share as it scales up MtO production with enhanced content quality.

Figure 6: Overview of Strawbear



Source: Company data, Frost & Sullivan

Note: 1) As of Mar 2021

With platform business model and well-recognized content

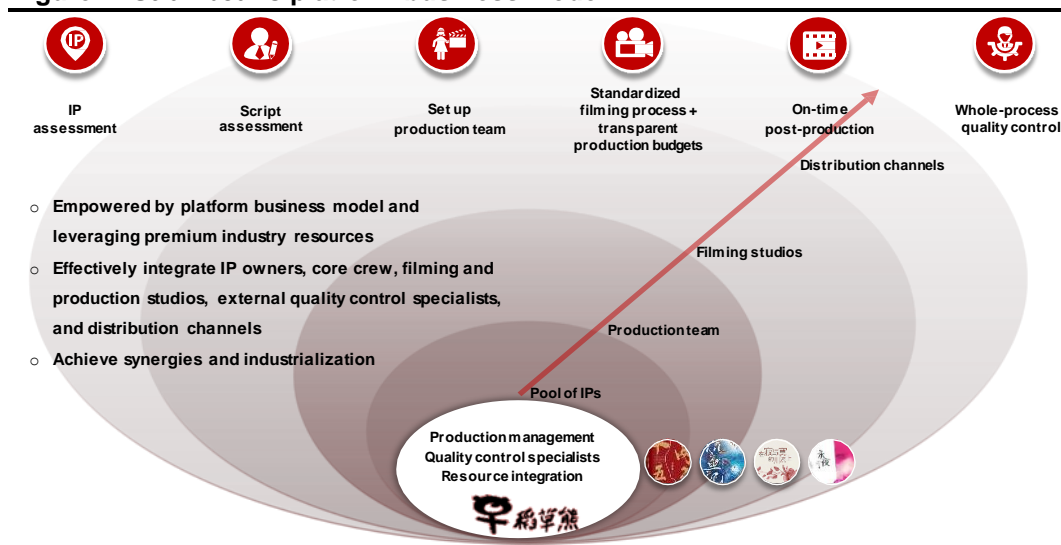
Strawbear uses platform business model to integrate premium industry resources, including screenwriters, production crew, and quality control specialists. As a middle-office platform, Strawbear selects industry participants suitable to the content genre, creating synergies in its well-established ecosystem.

Strawbear leverages its investment and distribution capabilities to facilitate the production process. As of Dec 2019, it was the only drama series producer that possessed a Television Drama Production Permit (Class A) (《电视剧制作许可证(甲种)》) in Jiangsu Province. There were only 73/ 29 companies/ non-state-owned enterprises holding the permit in 2019, and we expect the permit to become more valuable as related restrictions tighten.

Strawbear develops quality content with its platform business model, as evidenced by its audience reception. In 2019, its Treasure Adventure <国宝奇旅> won the First Prize of the 2019 Jiangsu Province Outstanding Copyright Award (2019 年江苏省优秀版权作品一等奖) and Five-one Project Award of Jiangsu Province (江苏省五个一工程奖). Its romantic

comedy, Dating in the Kitchen <我，喜欢你>, was the Top 6 most viewed drama series on Tencent Video in 2020 with 85mn views per episode, according to Tencent.

Figure 7: Strawbear's platform business model



Source: Company data

Leveraging valuable IPs and strong distribution capability

Strawbear generally maintains 20 to 30 IP reserves simultaneously to satisfy its demand for drama series production. At the end of 2020, it had aggregately 34 IPs in reserve, some of which were also high-ranking stories on leading online literature platforms.

Strawbear highly values IP development and acquisition. As of Dec 2020, it licensed 27 IPs and self-incubated seven IPs. With IP reserves as the backbone, it broadcasted 12 drama series in 2020, realizing the large-scale drama production and consolidating its market influence.

Strawbear also has strong distribution capabilities with well-established relationships with the Top 5 TV channels and Top 3 online video platforms in China. According to Frost & Sullivan, it was the only company that distributed new drama series on all of the aforementioned eight dominant channels in 2019.

Figure 8: Strawbear's large and diversified pool of IP rights



Source: Company data

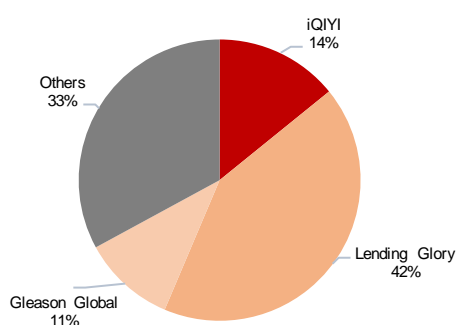
Backed by strong relationship with iQIYI

iQIYI is one of the largest Chinese online video platforms, with 101.7mn subscribers as of 4Q20. According to Frost & Sullivan, iQIYI had market share of 29.8%/ 31.6%/ 30.2% in 2017/ 2018/ 2019 in terms of revenue. Enlightenment ranked iQIYI as China's largest online video platform in terms of effective viewership in 2020.

Strawbear established its long-lasting relationship with iQIYI by broadcasting its first self-produced drama series in 2015. Since Nov 2018, iQIYI has been Strawbear's substantial shareholder, and has two designated directors in the board. iQIYI was also Strawbear's Top 5 customers and suppliers, with 27.2%/ 69.2% rev contribution in 2019/ 1H20.

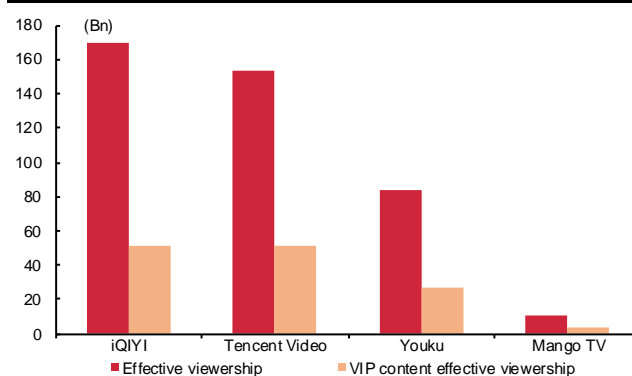
Strawbear cooperates with iQIYI to develop its existing and growing business. Leveraging iQIYI's large audience base, Strawbear's Winter Begonia <鬢邊不是海棠紅> was well acclaimed (Douban rating 8.1). Strawbear also provides MtO production services for iQIYI, launching Customer First <獵心者> and Marry Me <三嫁惹君心> in 2020. We expect to see further synergies as the two companies explore copyright licensing and overseas business.

Figure 9: Strawbear's est. post-IPO shareholding



Source: Bloomberg, as of Apr 2021

Figure 10: iQIYI was Top 1 as of 2020 viewership



Source: Enlightenment

Investment Summary

Unique creation ecosystem with valuable IPs and integrated resources

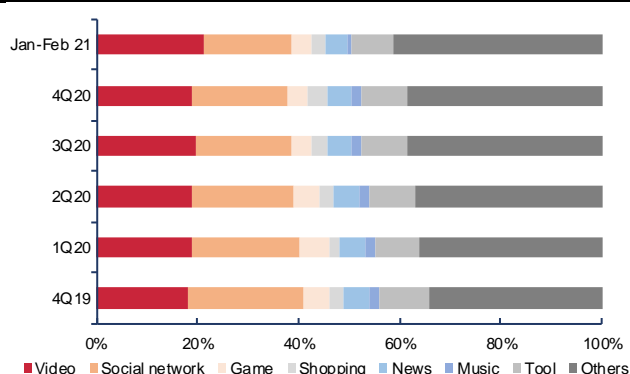
Well-positioned to capture video tailwinds

Video has become the primary online entertainment media in China, as it exceeded social network to be the Top1 online activity in terms of time spent in 3Q20, according to QuestMobile. Frost & Sullivan forecasted that China's online drama market would grow at 8.9% CAGR in 2019-24E to RMB68bn (vs. TV drama's -0.5% CAGR). With further adoption of the 5G technology, we expect the video tailwinds to continue.

Due to fierce competition, limited production licenses, and restricted actor remuneration, online video platforms increasingly fight for quality content. According to Frost & Sullivan, Chinese online video platforms' drama series investment will grow at 9.1% CAGR in 2019-24E.

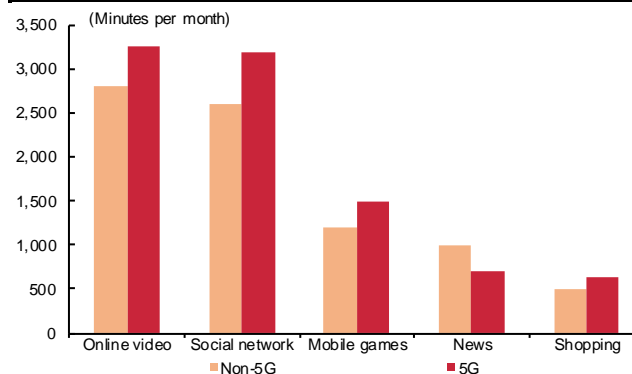
As a pioneer to cooperate with online video platforms, Strawbear is well positioned to benefit from the video tailwinds. It broadcasted its first self-produced drama series in 2015 with an "Online first, TV next" model in 2015 and has since built close relationship with iQIYI. We anticipate Strawbear to deepen its collaboration with online video platforms through Made-to-Order drama series and rev-sharing mode.

Figure 11: Video gains share on user online time



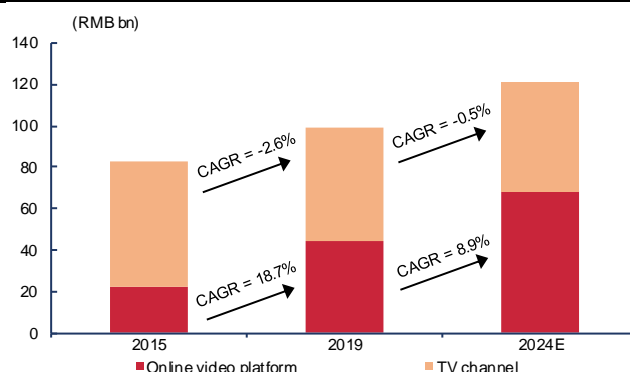
Source: QuestMobile

Figure 12: 5G boosts user time in online video



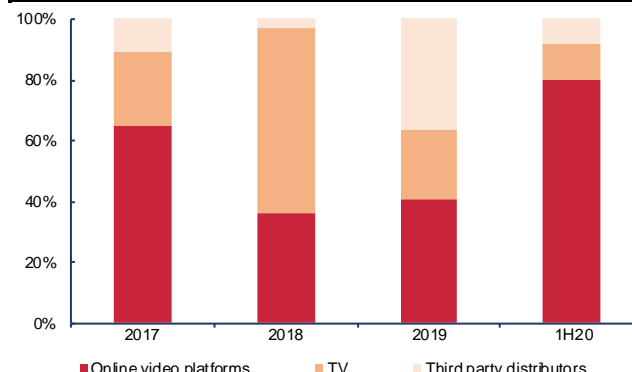
Source: QuestMobile

Figure 13: China's drama series market by channel

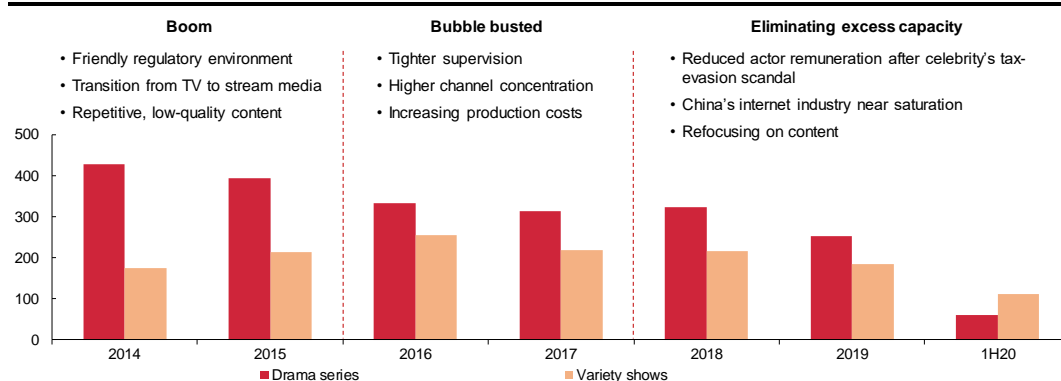


Source: Frost & Sullivan

Figure 14: Strawbear's rev by channel



Source: Company data

Figure 15: China's drama series and variety show production in 2014-1H20

Source: iResearch

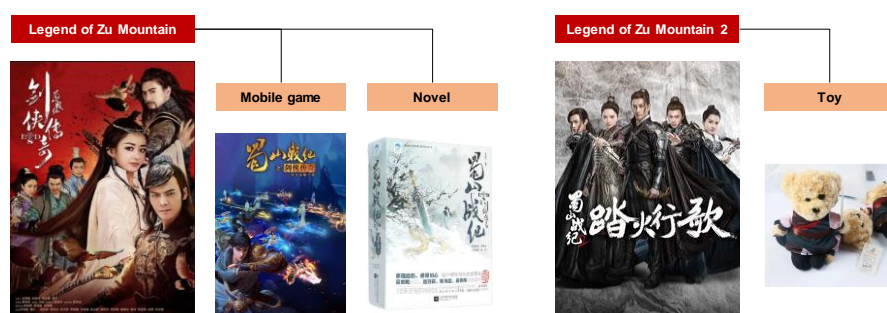
Note: For completed drama series with TV Drama Production License

Leveraging diversified pool of IP rights

The large and diversified IP pool is one of Strawbear's core competence. Strawbear had 34 IPs in Dec 2020, including works from renowned authors and screenwriters. In particular, the drama series adapted from Ma Boyong's (马伯庸) Two Capital <两京十五日> and Hai Fei's (海飞) The Wind Catcher <捕风者> are anticipated to be launched in 2022E.

Strawbear has proven capability to self-develop and acquire popular IPs. In 2015, it incubated a successful IP, Legends of Zu Mountain <蜀山战纪之剑侠传奇>. Strawbear later adapted the IP into game, novel, toy, and sequel drama series, extending the IP life cycle and creating more monetization opportunities.

Apart from self-incubation, Strawbear also obtains quality IP from external sources. In particular, Strawbear has the preferential right to purchase Booky Picture's (博集影业) quality IPs on a cost-effective basis. We expect Strawbear to replenish its IP reserves with its plan to acquire a copyright company (<RMB200mn) within two years.

Figure 16: Strawbear's Legend of Zu Mountain IP and IP derivatives

Source: Company data, CMBIS

Figure 17: Popularity of Strawbear's IP reserves

IP name	Genre	Douban rating	# Douban raters
Two Capitals <两京十五日>	History	8.1	10,240
The Wind Catcher <捕风者>	Spy	7.5	16
On The Stream Of Silence And Loneliness <在寂与寞的川流上>	Career/ romance	7.6	2,608
Where Are You From <客从何处来>	Romance/ mystery	7.2 ¹	58 ¹
Young Master Imprisoned In The Lake <湖中公子>	Period romance	6.9	455
Legend Of Yong Ye <永夜>	Period fantasy	7.7	3,470
Love And Hate <沉鱼记>	Period spy	N/A	N/A

Source: Company data, Douban, as of 4 Apr 2021

Note: 1) for the series Mu Shan Jian Wang Collection <暮山见忘集>, which contains the Where Are You From story.

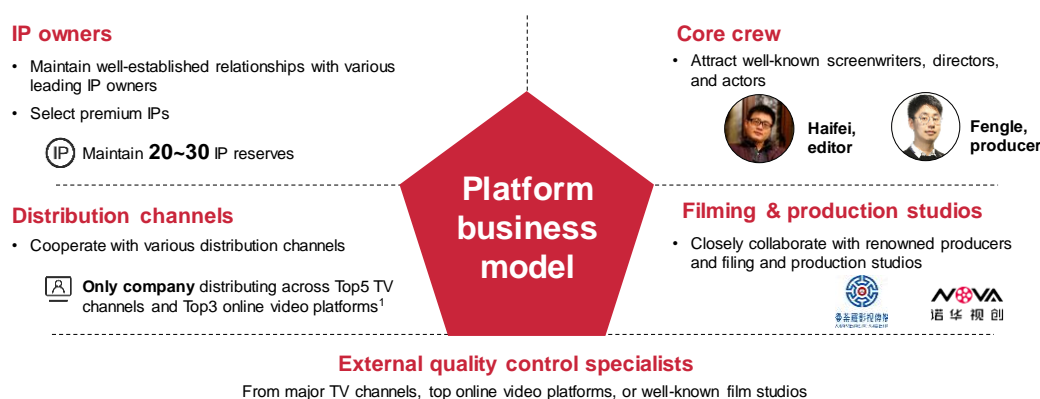
Strong production & distribution capabilities with premium resource integration

Strawbear uses a platform business model to integrate resources and standardize the production process. Instead of focusing on any single stage of drama series production, it matches suitable industry participants depending on the genre.

With the platform business model, Strawbear shortens the drama series development cycle and achieves industrialization. It usually takes 17.8 months for Strawbear from Application of Public Record (备案公示申请) to initial drama series broadcasting, much shorter than the industry average of 22.8 months (according to Frost & Sullivan).

Strawbear also demonstrates substantial production and distribution capability. As of 1H20, Strawbear was the investor/ major investor for 16/ 8 drama series that had completed production, among which 11 were its self-produced drama series. It also successfully distributed 18 out of its 19 drama series in 2017-1H20, while using half the time as the industry average.

Figure 18: Integrating industry participants with the platform business model



Source: Company data

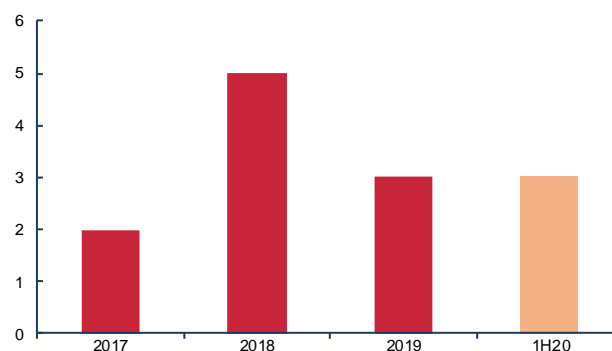
Note: 1) in 2019, according to Frost & Sullivan

Figure 19: Strawbear's channel partners



Source: Company data

Figure 20: Strawbear's distributed drama series



Source: Company data

Strong pipeline with made-to-order biz as long-term driver

High-quality content pipeline with 20 drama series

Strawbear produces an array of drama series with different genres and investment scales. As of Apr 2021, it had launched 34 drama series with two series aired in this year, namely Spirit Realm <灵域> and Breathe of Destiny <一起深呼吸> (Douban rating 6.2/ 7.3).

Strawbear showed improving production and procurement capability, as the average Douban rating (China's leading rating website) for its series increased steadily from 4.70 in 2018 to 6.55 in 2020. As Strawbear leverages its platform business model, we expect it to launch mid-teens quality drama series every year, with more self-produced/ MtO blockbuster content like Dating in the Kitchen <我，喜欢你> aired in 2020.

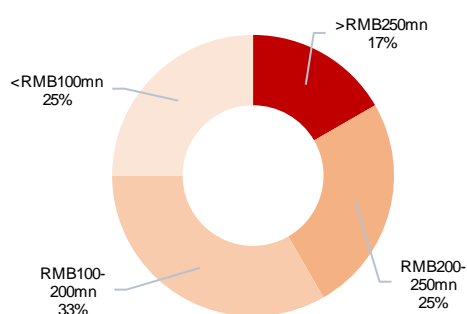
We expect Strawbear to maintain its quality content pipeline, through 1) cooperating with more content producers (including M&A); 2) helping existing partners to launch their second and third work under the platform business model; and 3) deepening the collaboration with iQIYI to produce short series and pursue overseas opportunities.

Figure 21: Highly-anticipated drama series in Strawbear's pipeline

Proposed name	Genre	Episodes	Type	Launch time
Spirit Realm <灵域>	Fantasy	36	Web	9 Jan 2021
Breath of Destiny <一起深呼吸>	Medical romance	40	TV	23 Mar 2021
Party Group <党小组>	War/ spy	40	TV	N/A
My Mr. Cat <我的猫先生>	Metropolitan romance	30	TV	Expected 3Q21
Flying To The Moon <月歌行>	Period fantasy	40	Web	Expected 2021
My Bargain Queen <我的砍价女王>	Metropolitan romance	40	TV	Expected 2021 "11.11"
Our Destiny In Self-Redemption <浮图缘>	Period romance	30	Web	Expected 4Q21
Handsome Young Master <公子倾城>	Period romance	24	Web	Expected 4Q21
Steal His Heart <偷走他的心>	Metropolitan	36	NA	Expected 2022
Hello Baby <你好宝贝>	Metropolitan	40	TV	Expected 2022
The Wind Catcher <捕风者>	War/ spy	40	NA	Expected 2022
Two Capitals <两京十五日>	Period fantasy	40	NA	Expected 2022

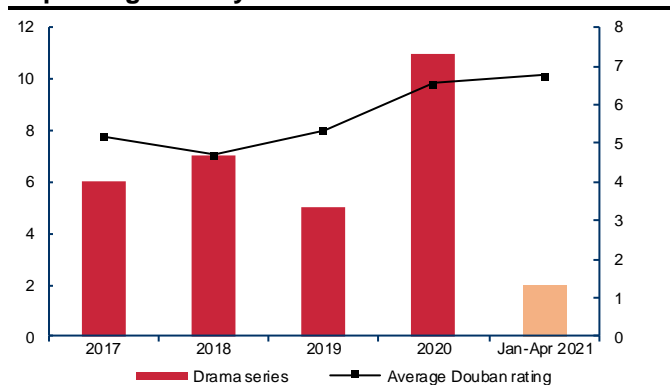
Source: Company data

Figure 22: Strawbear's MtO and self-produced drama series, by investment scale



Source: Company data

Figure 23: Strawbear drama's Douban rating improving steadily



Source: Company data, Douban, CMBIS

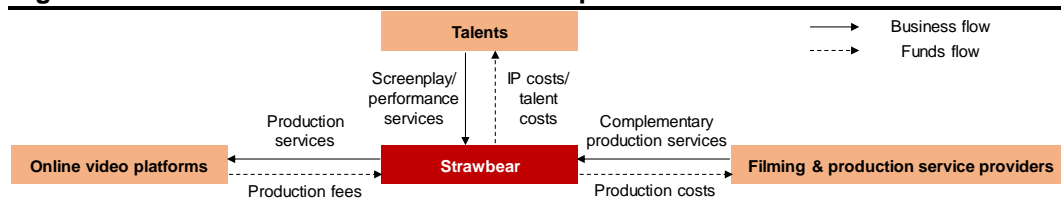
Initial fruits from made-to-order drama series –long-term driver

Made-to-order drama series grew rapidly as they meet online video platform's evolving and specific needs. According to Enlightent, MtO and self-produced model accounted for 73%/ 71% of the effective viewership on iQIYI and Tencent Video in 2020, and 33% of all drama series launched. As Strawbear is a pioneer to adopt the MtO model, we expect it to gain share in the fragmented market.

We anticipate MtO drama series to be Strawbear's long-term growth driver. Strawbear can collect 80% of the contracted price at the drama series launching date with this model, reducing operational risks and capital pressure. The MtO model enables Strawbear to produce more period and fantasy dramas, which requires high investment and a long production cycle.

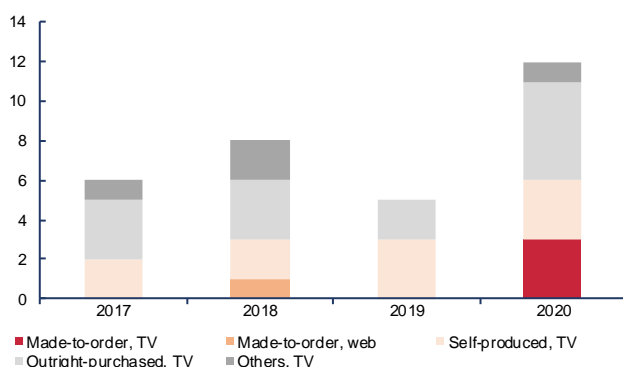
We see high visibility for Strawbear's MtO contribution in 2021E. Strawbear ramped up its MtO drama launching with three new series in 2020, including the blockbuster romance drama *Dating in the Kitchen*. With at least five MtO drama series to be launched this year, we expect MtO to be the primary contributor (60%+) to Strawbear's new 2B drama series.

Figure 24: Strawbear's Made-to-order drama production business model



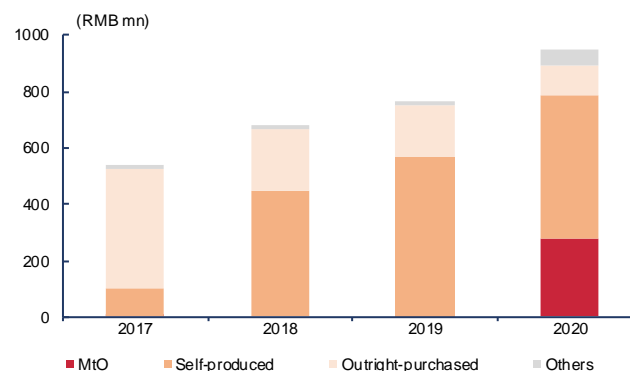
Source: Company data

Figure 25: Strawbear drama series by business model



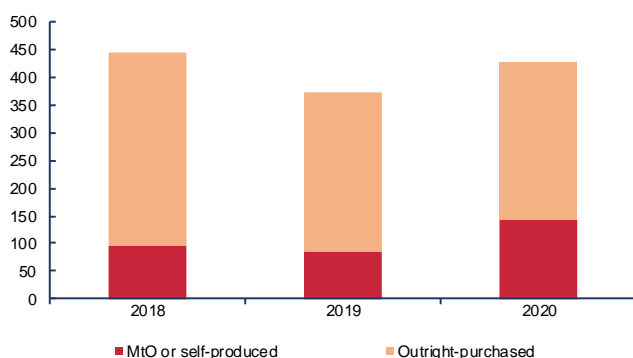
Source: Company data

Figure 26: Strawbear rev by business model



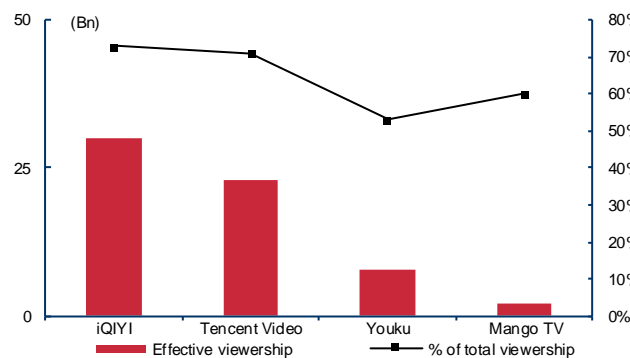
Source: Company data

Figure 27: Self-produced or MtO drama broadcasted on Chinese online video platforms



Source: ENDATA

Figure 28: Self-produced or MtO drama viewership among Chinese online video platforms



Source: Enlightent

Capturing To-C model opportunities to unlock monetization

Beyond to-b model: exploring rev-sharing cooperation

Rev-sharing mode is an increasingly popular cooperation method for content producers and online video platforms. According to Enlightent, 107 new rev-sharing drama series were launched in 2020 (+12 YoY), and 79 web movies received RMB10mn+ rev-sharing (+108% YoY). As the Top 3 online video platforms accelerate their rev-sharing schemes, top-tier drama series can enjoy 70-90% of the subscription and ads rev.

The rev-sharing mode effectively aligns producers' interest with the online video platforms and creates a virtuous cycle of content production, as producers would receive more direct feedbacks from customers to produce premium content.

We expect Strawbear to further explore into the to-C model through both organic growth and M&A. While we anticipate to-B drama series to remain the primary rev contributor in the short term, to-C business can unlock Strawbear's TAM and diversify its revenue sources.

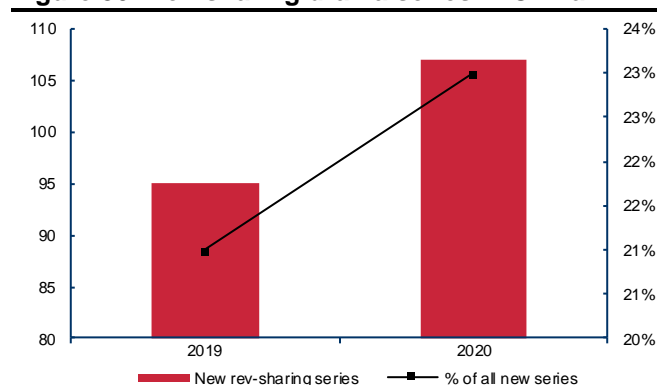
Figure 29: Top 3 online video platforms' rev sharing scheme for web drama series

Platform	Business	Calculation	Unit price	Share ratio/ coefficient
iQIYI	Subscription	Effective views ¹ * series unit price / # paid eps * share ratio	A: RMB10 B: RMB8 C: RMB6 D: RMB7	A/B: 70% ² C/D: 50%
	Ads	Ads rev * (1 – opex %) * share ratio	-	Exclusive: 70% Non-exclusive: 30%
Youku Video	Subscription	User watching time/ total play time * series unit price * episode length coefficient	S: RMB25 A: RMB20 B: RMB10 C: RMB5	12 ≤ eps ≤ 23: 0.5 24 ≤ eps ≤ 35: 1.0 36 ≤ eps ≤ 47: 1.5 48 ≤ eps: 2
	Ads	(Ads rev – opex) * share ratio	-	S/A/B: 80% C: 50%
Tencent Video	Subscription	Effective views ³ * unit price * share ratio	RMB1 (per view)	Exclusive: 90% Non-exclusive: 50%
	Ads	Ads rev * (1 – opex %) * share ratio	-	Exclusive: 90% Non-exclusive: 50%

Source: iQIYI, Youku Video, Tencent Video, CMBIS

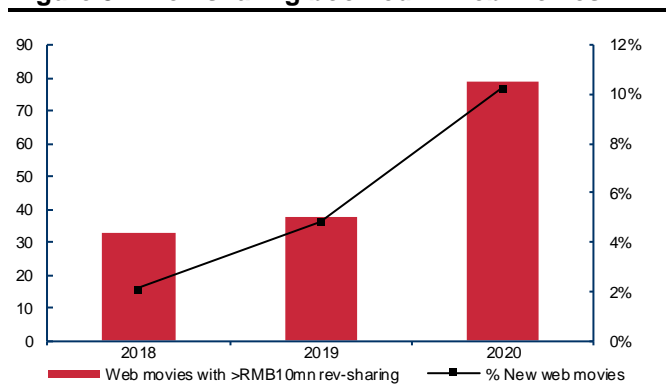
Note: 1) watching a single episode for >6mins; 2) subjective to iQIYI's review; 3) watching a single episode for >5mins

Figure 30: Rev-sharing drama series in China



Source: Enlightent

Figure 31: Rev-sharing boomed in web movies



Source: Enlightent

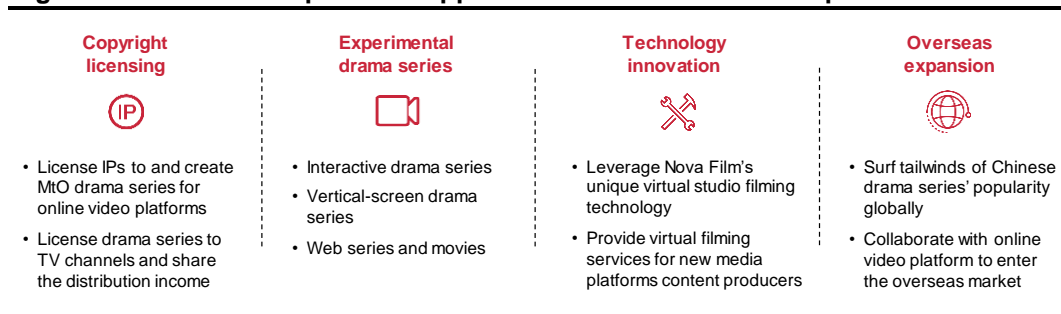
Multiple monetization with business innovations and selective investment

We anticipate Strawbear's new business incubation to diversify its revenue mix in the long term. In Jun 2020, Strawbear acquired Nova Film, a high and new technology enterprise focusing on visual effects and virtual cinematography. We expect the Nova Film acquisition to enhance Strawbear's production capabilities and provide to-B post-production service opportunities.

Strawbear also leverages its drama series know-how to monetize through copyright licensing. In 2017-2020, it outright-purchased 14 drama series and sub-licensed them to TV channels. With its superior title selection capability, Strawbear has outright-purchased blockbuster content, such as Winter Begonia <鬓边不是海棠红> launched in 2020. We expect Strawbear to continue to purchase and sublicense quality drama series to diversify its revenue while maintaining its liquidity.

Strawbear also plans to engage more video formats through 1) facilitating short-video promotion and 2) producing interactive or vertical-screen drama series. Short video platforms like Douyin have become prominent channels for PGC marketing and witnessed the rise of vertical-screen short drama series. We believe Strawbear's business incubation can improve its marketing efficiency and attract customers with unique content.

Figure 32: Strawbear's potential opportunities with online video platforms



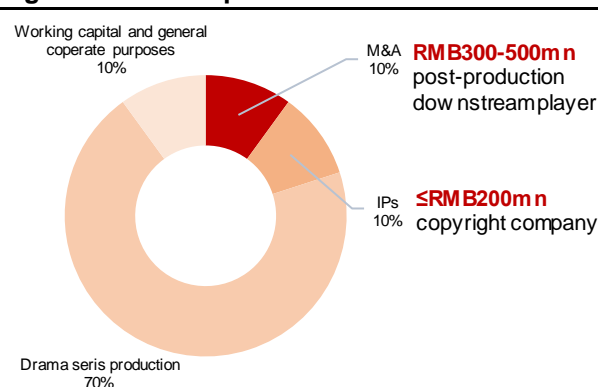
Source: Company data

Figure 33: Nova Film's virtual filming technology



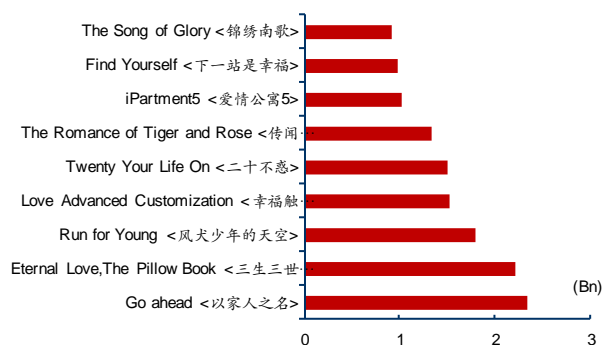
Source: Nova Film

Figure 34: Use of proceeds for Strawbear's IPO

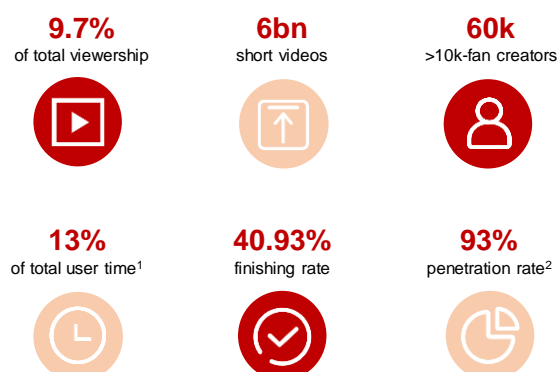


Source: Company data

Note: acquisition targeted within two years after IPO

Figure 35: Viewership of drama-related short videos on Douyin, in 2020

Source: Douyin

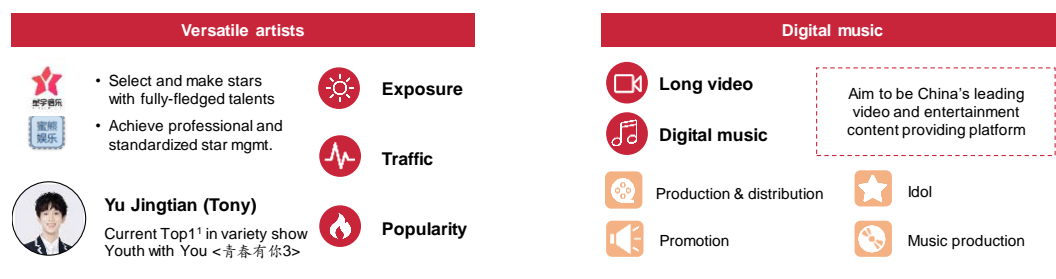
Figure 36: Popularity of UGC short dramas on Douyin, in 2020

Source: Douyin

Unlocking long-term TAM with star management and digital music initiatives

Strawbear established Beijing Honeybear (蜜熊娱乐) and Xingyu Yinyue (Astro Music, 星宇悦乐) in 2020 for its star management initiatives. Xingyu Yinyue's star, Yu Jingtian (余景天), was Top 1 in the first two rankings of the 2021 variety show Youth with You 3 <青春有你3>, suggesting its premium star discovery and cultivation capabilities.

Starbear also aims to be China's leading pan-entertainment content provider, tapping into the digital music tailwinds. We believe it can leverage its long video know-how to develop pan-entertainment production and distribution capabilities. Coupled with Strawbear's star making business, its initiatives may unlock long-term TAM if executed well.

Figure 37: Strawbear's star management and digital music initiatives

Source: Company data

Note: As of 22 Apr 2020

Financial Analysis

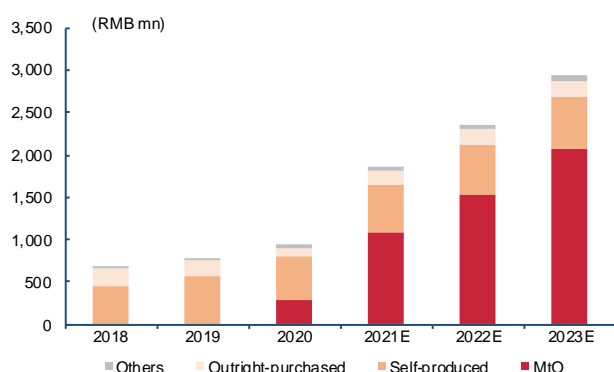
Revenue Breakdown

We forecast Strawbear revenue to grow at 97%/26%/25% in FY21/22/23E, in which MtO rev continues to be the largest rev contributor in the long run. By segment, we expect self-produced/ outright-purchased/ MtO rev to grow at CAGR of 6%/ 23%/ 95% in FY20-23E.

Key topline drivers come from:

- 1) **MtO drama rev:** forecasting 95% rev CAGR in FY20-23E, mainly supported by increasing number of MtO series launched each year (expecting mid-to-high-teens new MtO series in FY2023E). We expect Strawbear's MtO business to contribute 65% of total revenue in 2022E.
- 2) **Self-produced drama rev:** 6% rev CAGR in FY20-23E (24.8% of rev mix in FY2023E). We believe Strawbear can efficiently leverage its platform business model to break through the scalability bottleneck.
- 3) **Outright-purchased drama rev:** forecasting this segment with 23% rev CAGR in FY20-23E, backed by Strawbear's content selection and resources integration capabilities.
- 4) **Others:** forecasting this segment with 10% rev mix in FY20-23E. We expect its to-C business to unlock its potential, if executed well.

Figure 38: Rev estimates



Source: Company data, CMBIS estimates

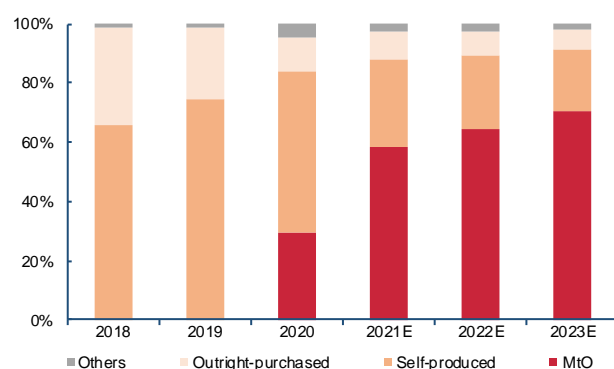
Figure 39: Rev growth breakdown



Source: Company data, CMBIS estimates

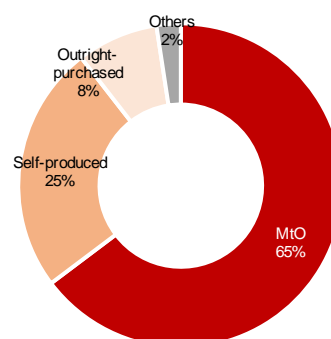
Note: Other rev growth is not included for clearer demonstration

Figure 40: Rev mix trend



Source: Company data, CMBIS estimates

Figure 41: FY22E revenue breakdown



Source: Company data, CMBIS estimates

Income Statement

We expect stable margin outlook in the short run, with to-B business still as its primary rev contributor. Higher contribution from MtO drama series will mildly reduce gross margin but increase rev growth visibility. For content innovation, Strawbear would still invest in IP reserves, production teams, and production-related technology. In the long run, we expect margin improvement from scale effect, online video platform price hike, and operating leverage.

We expect its gross margin stable at 27.3% in FY20-23E, factoring in actor salary cap, improving content quality, and greater MtO contribution.

As a result, we forecast its adj. net income to reach RMB278mn/RMB351mn in FY21/22E, with adj. net margin at 14.8% in FY22E.

Figure 42: Income statement

RMB mn, Dec-YE	FY19	FY20	FY21E	FY22E	FY23E
Net revenue	765	952	1,871	2,364	2,944
Cost of revenue	(657)	(693)	(1,361)	(1,719)	(2,141)
Gross profit	108	260	510	645	803
Selling exp	(33)	(81)	(140)	(175)	(215)
Admin exp	(18)	(68)	(51)	(61)	(74)
Other operating exp	0	0	0	0	0
Operationing (loss)/profit	56	111	320	409	515
Other expenses	10	(62)	17	16	16
Profit before income tax	66	48	336	425	531
Income taxes (expense)/credit	(16)	(30)	(67)	(85)	(106)
Profit for the year	50	18	269	340	425
Adj. net profit	65	131	278	351	436
Margin Analysis					
Gross margin	14%	27%	27%	27%	27%
Operating margin	7%	12%	17%	17%	17%
Adj. net margin	9%	14%	15%	15%	15%
Growth Analysis					
Revenue	13%	24%	96%	26%	25%
Gross profit	-49%	141%	96%	26%	25%
Operating profit	-19%	96%	188%	28%	26%
Adj. net profit	27%	100%	113%	26%	24%

Source: Company data, CMBIS estimates

Balance Sheet

According to our estimates of profit before taxation and change in working capital, Strawbear has solid operating cash flow & financing cash flow in supporting CAPEX in the next three years. We expect Strawbear to hold RMB202mn/RMB512mn cash and cash equivalent as of 31 Dec of 2021E and 2022E.

Figure 43: Balance Sheet

RMB mn, Dec-YE	FY19	FY20	FY21E	FY22E	FY23E
Non-current assets	197	196	202	206	209
Property and equipment	3	9	9	8	8
Right-of-use assets	1	8	15	21	26
Intangible assets	132	151	146	129	98
Others	151	153	153	153	153
Current assets	1,855	1,664	2,740	3,112	4,088
Cash and restricted cash	52	96	615	925	1,273
Accounts and notes receivables	485	441	766	711	1,073
Inventories	919	856	1,087	1,205	1,471
Other current asset	398	271	271	271	271
Current liabilities	1,554	1,146	1,536	1,562	2,105
Accounts payables	449	238	497	408	750
Other payables and accruals	735	588	711	818	1,010
Short-term loan	125	159	167	175	184
Others	246	161	161	161	161
Non-current liabilities	304	489	14	14	14
Financial Liabilities at fair value through profit or loss	290	475	0	0	0
Deferred tax liability	14	9	9	9	9
Long-term operating lease liabilities	0	5	5	5	5
MI	0	1	1	2	2
Total Equity	194	225	1,392	1,743	2,179
Shareholders' equity	194	224	1,391	1,741	2,177

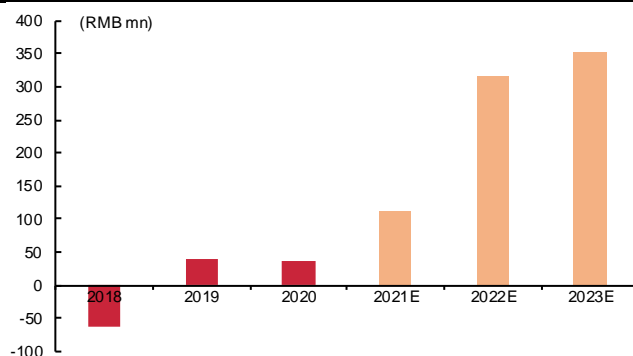
Source: Company data, CMBIS estimates

Cash Flow and Working Capital

Vast user base and solid cross-selling ensure strong operating cash flow

Given the increasing rev contribution from MtO drama series, we expect Strawbear to maintain its solid operating cash inflow trend and record RMB112mn/ RMB316mn/ RMB353mn of operating cash inflow in FY21/ 22/ 23E, respectively.

Figure 44: Operating cash flow projections



Source: Company data, CMBIS estimates

Figure 45: Cash flow and working capital analysis

RMB mn, Dec-YE	FY19	FY20	FY21E	FY22E	FY23E
Cash Flow					
Operating cash flow	39	57	112	316	353
CAPEX	(0)	(14)	(14)	(14)	(14)
Others	(186)	10	10	10	11
Investing cash flow	(187)	(3)	(3)	(3)	(3)
Net borrowings	110	0	8	8	9
IPO proceeds	0	0	889	0	0
Others	(7)	(10)	(486)	(11)	(12)
Financing cash flow	103	(10)	411	(3)	(3)
Cash at period end	52	96	615	925	1,273

Source: Company data, CMBIS estimates

Valuation

Investment Thesis

We initiate BUY with DCF-based TP of **HK\$17.0**, implying **35x/28x** FY21/22E P/E. We see high visibility for Strawbear's solid rev growth, with higher contribution from MtO drama series. Strawbear's positive price drivers and catalysts would originate from: 1) solid earnings result; 2) faster-than-expected content launch; and 3) new business initiatives to unlock TAM.

Initiate with BUY

We use DCF valuation as our primary method due to the high visibility of Strawbear's cash inflow in the coming few years. Assuming a WACC of 11.5% and a terminal growth rate of 3%, our estimated TP is **HK\$17.0**, representing **35x/28x** FY21/22E P/E.

Figure 46: DCF valuation

DCF valuation (RMB mn)										
	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	320	409	515	646	798	978	1,186	1,427	1,702	2,013
Tax	(67)	(85)	(106)	(132)	(163)	(199)	(242)	(291)	(347)	(410)
D&A	8	9	10	11	13	14	15	17	18	20
Working capital	(184)	(43)	(105)	(97)	(181)	(163)	(146)	(132)	(119)	(107)
CAPEX	(14)	(14)	(14)	(14)	(14)	(14)	(14)	(14)	(15)	(15)
FCF	63	276	301	414	454	616	799	1,007	1,240	1,501
FCF Growth		338%	9%	38%	10%	36%	30%	26%	23%	21%
Terminal Value										18,226
PV (FCF+ Terminal Value)	63	248	242	299	294	358	416	470	520	7,415

Assumptions	
WACC	11.5%
Tax rate	20.0%
Risk free rate	3.6%
Cost of debt	0.0%
Beta	1.10
Market risk return	11.4%
Cost of equity	12.2%
Debt/Assets	5.7%
WACC	11.5%
Terminal growth rate	3.0%
Debt value	0

Equity Value	
PV	10,325
minus: Net cash	615
minus: Minority Interest	0
Equity Value	9,710
Shares (mn)	688
Target Price (HK\$) based on DCF	17.0

		WACC				
		9.5%	10.5%	11.5%	12.5%	13.5%
Growth	1.5%	20.5	17.4	15.1	13.1	11.6
	2.0%	21.5	18.2	15.6	13.6	11.9
	2.5%	22.7	19.1	16.3	14.1	12.3
	3.0%	24.1	20.1	17.0	14.6	12.7
	3.5%	25.8	21.2	17.8	15.2	13.2
	4.0%	27.7	22.5	18.7	15.9	13.7
	4.5%	30.1	24.0	19.8	16.6	14.2

Source: Company data, Bloomberg, CMBIS estimates

Note: FX = 0.83

Peers comparison

As a crosscheck, we selected 10 film and production companies, 4 entertainment giants, and 5 pan-entertainment VAS companies for comparison. The industry multiple is 32.3x/26.6x FY21/22E P/E, largely in line with our DCF-based multiple of **35x/28x** FY21/22E P/E.

Figure 47: Peers valuation

Company	Ticker	Mkt cap (USD mn)	Currency	Price	CMBI Rating	CMBI TP	PE			PS			EV/EBITDA			EPS CAGR
							FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	
Strawbear	2125 HK	1,195	HKD	13	BUY	17.00	32.9	26.6	21.4	4.5	4.0	3.2	NA	NA	NA	24%
Film & Drama																
Enlight Media	300251 CH	5,611	CNY	12	NA	NA	77.6	34.7	29.4	29.5	14.0	11.9	88.9	35.4	28.9	11%
Wanda Film	002739 CH	5,954	CNY	17	NA	NA	23.9	19.1	NA	2.3	2.1	NA	14.0	11.9	NA	NA
China Film	600977 CH	4,048	CNY	14	NA	NA	NA	25.1	22.3	8.9	2.9	2.5	NA	11.9	10.5	NA
Zhejiang Huace	300133 CH	1,790	CNY	7	NA	NA	25.7	19.8	16.9	3.1	2.5	2.2	22.6	16.2	13.9	23%
Huayi Brothers	300027 CH	1,669	CNY	4	NA	NA	NA	29.5	25.5	6.4	3.6	3.2	49.4	20.4	18.0	NA
Hengdian Ent	603103 CH	1,541	CNY	16	NA	NA	NA	29.9	22.9	9.2	3.4	3.0	NA	16.4	12.9	23%
Ali Pictures	1060 HK	3,941	HKD	1	NA	NA	190.7	47.7	27.2	9.9	6.1	4.8	1386.4	33.9	16.8	165%
Maoyan Ent	1896 HK	2,160	HKD	15	NA	NA	NA	16.7	13.1	10.6	3.3	2.8	NA	11.9	8.9	23%
Cathay Edu	1981 HK	1,508	HKD	7	NA	NA	33.7	22.2	17.1	12.6	8.6	6.8	19.6	13.0	10.4	26%
HKT V	1137 HK	1,277	HKD	11	NA	NA	38.2	37.6	24.7	3.4	2.9	2.5	23.7	22.6	16.3	28%
Average							39.8	28.2	22.1	9.6	4.9	4.4	36.4	19.4	15.2	43%
Internet Giants																
Tencent	700 HK	781,211	HKD	632	BUY	735	40.8	33.2	27.2	10.5	8.6	7.1	28.3	23.9	19.7	22%
Alibaba	BABA US	621,795	USD	229	BUY	314	22.7	20.7	16.8	5.7	4.4	3.6	18.1	15.3	12.3	16%
Disney	DIS US	331,758	USD	183	NA	NA	120.9	97.8	38.0	5.1	4.8	3.8	41.1	38.0	23.1	81%
Netflix	NFLX US	225,585	USD	509	NA	NA	75.7	47.0	39.5	9.0	7.6	6.6	46.0	34.5	27.8	25%
Average							46.4	33.6	30.4	7.6	6.3	5.3	33.4	27.9	20.8	36%
VAS & Subscribers																
iQiyi	IQ US	12,179	USD	15	BUY	30	NA	NA	NA	2.7	2.4	2.1	NA	NA	1366.6	NA
Bilibili	BILI US	41,212	USD	108	BUY	173	NA	NA	NA	22.7	13.9	9.7	NA	NA	1756.0	NA
TME	TME US	31,499	USD	19	NA	NA	40.8	38.5	28.6	7.0	5.8	4.9	40.1	37.3	27.2	25%
Mango TV	300413 CH	17,241	CNY	63	NA	NA	60.5	48.5	41.2	7.5	6.0	5.0	19.4	15.2	12.5	21%
China Literature	772 HK	11,104	HKD	85	NA	NA	NA	53.1	40.0	8.9	6.9	5.9	NA	43.1	35.5	28%
Average							50.7	46.7	36.6	6.5	7.0	5.5	29.7	31.8	25.1	25%
Total Average							43.0	32.3	26.6	8.3	5.7	4.8	34.3	23.6	18.4	36%

Source: Bloomberg

Note: Data updated by 23 Apr 2021; Ali Pictures, Disney, iQIYI, Bilibili were excluded as outliers for average calculation

Key Investment Risks

Key investment risks may derive from: 1) intensified competition landscape; 2) other online entertainment platforms gaining share from online video; 3) content delay; 4) regulation uncertainty; and 5) slower-than-expected MtO execution.

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net revenues	765	952	1,871	2,364	2,944
Self-produced	571	516	552	586	615
Outright-purchased	183	109	174	191	201
MtO	-	280	1,093	1,530	2,065
Others	10	47	52	57	63
COGS	(657)	(693)	(1,361)	(1,719)	(2,141)
Gross profit	108	260	510	645	803
Selling exp	(33)	(81)	(140)	(175)	(215)
Admin exp	(18)	(68)	(51)	(61)	(74)
Operating profit	56	111	320	409	515
Other income, net	10	(62)	17	16	16
Pre-tax Income	66	48	336	425	531
Income Tax	(16)	(30)	(67)	(85)	(106)
Net profit	50	18	269	340	425
Adj. net profit	65	131	278	351	436

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income	50	18	269	340	425
D&A	2	32	8	9	10
Change in WC	(7)	(107)	(184)	(43)	(105)
Others	(7)	114	19	10	23
Operating CF	39	57	112	316	353
Capex	(0)	(14)	(14)	(14)	(14)
Others	(186)	10	10	10	11
Investing CF	(187)	(3)	(3)	(3)	(3)
Net borrowings	110	-	8	8	9
Dividend paid	-	-	889	-	-
Others	(7)	(10)	(486)	(11)	(12)
Financing CF	103	(10)	411	(3)	(3)
Net change in cash	(45)	43	520	310	347
Cash (beg of yr)	97	52	96	615	925
Cash (end of yr)	52	96	615	925	1,273

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	197	196	202	206	209
PP&E	3	9	9	8	8
Right-of-use assets	1	8	15	21	26
Intangible assets	43	26	26	25	23
Others	151	153	153	153	153
Current assets	1,855	1,664	2,740	3,112	4,088
Cash & CE	52	96	615	925	1,273
Accounts/notes receivables	485	441	766	711	1,073
Inventories	919	856	1,087	1,205	1,471
Other current asset	398	271	271	271	271
Current liabilities	1,554	1,146	1,536	1,562	2,105
Accounts payables	449	238	497	408	750
Other payables and accruals	735	588	711	818	1,010
Short-term loan	125	159	167	175	184
Others	246	161	161	161	161
Non-current liabilities	304	489	14	14	14
Financial Liabilities at fair value through profit or loss	290	475	-	-	-
Deferred tax liability	14	9	9	9	9
Long-term operating lease liabilities	-	5	5	5	5
MI	-	1	1	2	2
Total Equity	194	225	1,392	1,743	2,179
Shareholders' equity	194	224	1,391	1,741	2,177

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Self-produced	74.7	54.2	29.5	24.8	20.9
Outright-purchased	24.0	11.4	9.3	8.1	6.8
MtO	0.0	29.4	58.4	64.7	70.2
Others	1.4	4.9	2.8	2.4	2.1
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	12.7	24.5	96.5	26.3	24.5
Gross profit	(48.7)	141.4	96.5	26.3	24.5
EBIT	(19.4)	96.2	188.4	27.8	26.0
Adj. net profit	26.9	100.1	112.7	25.9	24.5
P&L ratios (%)					
Operating margin	7.4	11.6	17.1	17.3	17.5
Pre-tax margin	8.6	5.1	18.0	18.0	18.0
Adj. net margin	8.5	13.7	14.9	14.8	14.8
Effective tax rate	(23.6)	(62.4)	(20.0)	(20.0)	(20.0)
Returns (%)					
ROE	38.4	62.5	20.0	20.1	20.0
ROA	3.2	7.0	9.5	10.6	10.2
Per share					
EPS (RMB)	NA	NA	0.4	0.5	0.6
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	0.5	0.6	2.0	2.5	3.1

Source: Company data, CMBIS estimates

Disclosures & Disclaimers

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HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIS

OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

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