

# FriendTimes Inc. (6820 HK)

## Investments to enrich category

FriendTimes announced investments in two game developers, which is positive to its category expansion and development cooperation. Tale of Empress (<浮生为卿歌>) performed stable at Top 10-15 in iOS grossing rank in Jun and Jul. We estimate its monthly grossing at around RMB120-150mn in Jul (Mainland version), coupled with over RMB10mn for South Korea version. Wait for more titles to be launched in 2H20E and FY21E. We keep our forecast unchanged, with TP at HK\$4.0. Valuation at 9.0x FY20E P/E is attractive.

■ **Investments for category expansion.** FT announced investments in Aoshen Interactive (澳深互动)、Baolong Network(暴龙网络) on 28 Jul. We expect this investment could enrich FT's game category, and expand its pipeline (e.g. Project BGS, Project CSC) with upcoming cooperation. With flagships of *Luan shi tian xia* <乱世天下>, Aoshen specialized in SLG games, complementary for FT to expand male users. Baolong focused on RPG games, with key titles of Darkness and Light <暗黑之光>. We estimate the investment valuation far below 10x FY20E P/E, which is not demanding for FT.

■ **ToE stable at Top 10-15 iOS grossing rank.** ToE kept stable at Top 10-15 in grossing rank in Jul (vs. Top 30-50 in Jan, Top 20-25 in Feb, Top 12-20 in Mar, Top 9-15 in Apr, Top 5-15 in May & Jun), with daily grossing at RMB4.0-5.0mn (vs. RMB0.6-1mn in Jan, RMB2mn in Feb, RMB2.5-3.5mn in Mar, RMB3.5-5.5mn in Apr, May, Jun). We estimate its monthly grossing at around RMB120-150mn in Jun and Jul, (vs. RMB40mn/60mn/80mn/100mn+/120mn in Jan/ Feb/ Mar/ Apr/ May). Moreover, we expect ToE South Korea version to contribute RMB15mn monthly grossing, after launch in Jun. We suggest market to eye on further new titles in 2H20E, including modern woman, casual elimination and female Xianxia games. (e.g. Fate: The Loved Journey <此生无白>). FT would release its 1H20E results in Aug. 1H20E growth might be below full-year, for deferred revenue, lower ToE contribution in 1Q and Android performance, but we keep confident on its full-year result, and maintain our forecast unchanged.

■ **Maintain BUY.** The stock is trading at 9x FY20E P/E, largely below industry average of 15x. We suggest to look beyond 1H20E results, and eyes on new titles in 2H20E and FY21E. With forecast unchanged, we maintain our TP of HK\$4.0 (implying 13.5x FY20E P/E).

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	1,464	1,689	2,385	2,764	3,176
YoY change (%)	109%	15%	41%	16%	15%
Adj. net income (RMB mn)	337	416	586	688	794
Adj. EPS (RMB)	NA	0.19	0.27	0.31	0.36
YoY growth (%)	185%	23%	41%	17%	15%
Consensus EPS (RMB)	NA	NA	0.27	0.34	0.38
P/E (x)	15.7	12.7	9.0	7.7	6.7
P/S (x)	4.0	3.5	2.5	2.1	1.9
Yield (%)	0.0	0.0	3.4%	3.4%	3.7%
ROE (%)	59%	32%	28%	25%	22%
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

## BUY (Maintain)

Target Price	HK\$4.0
(Previous TP)	HK\$4.0)
Up/Downside	+45.0%
Current Price	HK\$2.7

### China Internet Sector

#### Sophie Huang

(852) 3900 0889

sophiehuang@cmbi.com.hk

#### Stock Data

Mkt Cap (HK\$ mn)	5,957
Avg 3 mths t/o (HK\$ mn)	13.11
52w High/Low (HK\$)	3.83/0.75
Total Issued Shares (mn)	2,188

Source: Bloomberg

#### Shareholding Structure

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

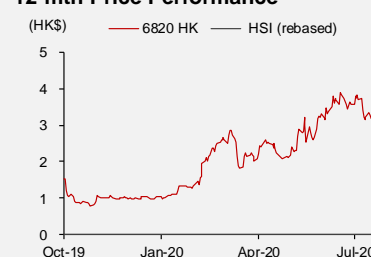
Source: Bloomberg

#### Share Performance

	Absolute	Relative
1-mth	-20.4%	-22.3%
3-mth	36.5%	35.2%
6-mth	111.9%	131.3%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

#### Related Reports

1. More catalysts to come – 9 Jun 2020
2. Moving to strong FY20E with eye-catching ToE – 30 Mar 2020
3. "Tale of Empress" strong momentum to continue – 28 Feb 2020

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## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Revenue</b>	1,464	1,689	2,385	2,764	3,176
Games	1,464	1,689	2,385	2,764	3,176
Others	0	-	-	-	-
<b>COGS</b>	(546)	(587)	(837)	(965)	(1,102)
<b>Gross profit</b>	918	1,102	1,548	1,799	2,074
S&M	(422)	(393)	(692)	(802)	(921)
R&D	(136)	(224)	(215)	(249)	(286)
G&A	(32)	(62)	(48)	(50)	(57)
Other income	36	24	39	45	52
<b>Operating profit</b>	363	447	633	744	861
Finance costs	(1)	(0)	(4)	(6)	(9)
Other gains, net	(1)	(8)	(0)	(0)	(0)
<b>Pre-tax Income</b>	361	438	629	738	852
Income Tax	(25)	(23)	(43)	(50)	(58)
MI	0	-	-	-	-
<b>Net profit</b>	337	416	586	688	794
<b>Adj. net profit</b>	337	416	586	688	794

### Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Pre-tax Income</b>	361	438	629	738	852
D&A	9	10	6	11	44
Change in WC	23	(51)	(42)	(14)	(15)
Others	(49)	(23)	(55)	(65)	(77)
<b>Operating CF</b>	344	375	538	669	805
Capex	(61)	(80)	(70)	(60)	(60)
Others	6	9	15	22	28
<b>Investing CF</b>	(55)	(71)	(55)	(38)	(32)
Equity raised	-	500	-	-	-
Change of debts	-	-	60	48	48
Others	(124)	(10)	(4)	(6)	(9)
<b>Financing CF</b>	(124)	490	56	42	39
<b>Net change in cash</b>	165	794	540	673	811
Cash (beg of yr)	305	473	1,266	1,806	2,479
FX	2	-	-	-	-
<b>Cash (end of yr)</b>	473	1,266	1,806	2,479	3,291

### Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
	113	246	255	304	320
<b>Non-current assets</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>	623	1,265	2,039	2,750	3,602
Cash	473	893	1,806	2,479	3,291
Trade receivables	132	219	215	249	286
Other current assets	18	153	18	22	26
<b>Current liabilities</b>	149	196	208	276	347
Bank loans	-	-	60	108	156
Trade and other payables	82	135	33	39	44
Lease liabilities	5	3	3	3	3
Other current liabilities	62	58	112	127	144
<b>Non-current liabilities</b>	14	9	21	25	29
Contract liabilities	11	9	21	25	29
Lease liabilities	2	-	-	-	-
Others	-	-	-	-	-
<b>Total Equity</b>	573	1,307	2,065	2,753	3,547

### 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>	100.0	100.0	100.0	100.0	100.0
<b>Growth rate (%)</b>					
Revenue	109.1	15.3	41.2	15.9	14.9
Gross profit	112.4	20.0	40.4	16.3	15.3
EBIT	146.6	23.0	41.6	17.7	15.7
Net profit	185.4	23.4	41.1	17.3	15.5
<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	26.8
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	28.4	25.0	22.4
ROA	45.7	27.5	25.5	22.5	20.2
Adj. EPS (RMB)	NA	0.19	0.27	0.31	0.36
DPS (RMB)	-	-	0.10	0.10	0.11
BVPS (RMB)	NA	0.59	0.94	1.25	1.61

Source: Company data, CMBIS estimates

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## CMB International Securities Limited

**Address:** 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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