

CMGE Technology (302 HK)

Eyes on strong pipeline ahead

CMGE delivered soft top line and profitability in FY23 for declining game grossing from existing games and rescheduling of several key titles. We suggest looking to revenue acceleration and margin recovery in FY24E (forecast top line +32% YoY, with adj. NM at 11%), boosted by: 1) a strong pipeline in FY24E, including *Soul Land: Space and Time Reversal* (斗罗大陆: 逆转时空), *Fights Break Firmament: Peak Confrontation* (斗破苍穹: 巅峰对决) and *Sword and Fairy World* (仙剑世界); 2) rising contribution from mini-games; and 3) continued overseas expansion. CMGE would pursue a ROI-driven R&D and S&M strategy ahead, to enhance its margin. We trim our earnings forecast by 25%-28% in FY24-25E, with a DCF-based TP at HK\$2.9.

■ **Looking beyond FY23 with moderate profitability.** CMGE rev dropped 4% YoY in FY23, 29% below consensus, mainly due to declining game grossing from existing games and rescheduling of several key titles. In 2023, *Sword and Fairy: Wen Qing* (新仙剑之挥剑问情) and *Cultivation Fantasy* (我的御剑日记) were officially launched and performed well, but *Swallowed Star: Dawn and Ultraman: The Gathering* missed expectation. Bottom line achieved breakeven with profit of RMB5mn in FY23, below consensus of RMB292mn. However, we think such results have been well priced in, and we suggest looking at the new games pipeline for FY24E and its shareholder return. CMGE announced a share repurchase plan of up to HK\$100mn by the next AGM.

■ **Eyes on strong pipeline ahead.** We are positive on CMGE's pipeline in 2024E, and forecast revenue +32% YoY. *Soul Land: Shrek College* (斗罗大陆: 史莱克学院) was launched in Jan 2024, with first-month grossing of over RMB100mn. In 1H24E, we expect two key titles to bring upside, including *Soul Land: Space and Time Reversal* and *Fights Break Firmament: Peak Confrontation*. On top of that, we are bullish on mini-games contribution in 2024E, including *Country Love: Business Life* (乡村爱情之经营人生) and *Sword and Fairy: Wen Qing* (both have obtained licenses). CMGE will also step up overseas expansion, with multiple titles to be launched in Hong Kong, Macau and Taiwan of China and Japan (e.g., *Sword and Fairy: Wen Qing*, *Soul Land: Shrek Academy*, and *Fights Break Firmament: Peak Confrontation*). For the bottom line, we expect FY24E adj. net profit at RMB387mn, with adj. net margin up to 11%.

■ **Maintain BUY.** We trim our earnings forecast by 25%-28% in FY24-25E to reflect S&M investment and pipeline rescheduling. Our DCF-based TP is adjusted to HK\$2.9 (implying 19x/15x FY24/25E P/E).

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	2,714	2,606	3,428	4,139	4,724
YoY growth (%)	(31.4)	(4.0)	31.6	20.7	14.1
Adjusted net profit (RMB mn)	(196.1)	5.4	386.9	481.3	568.0
Diluted EPS (RMB cents)	(0.07)	0.00	0.14	0.17	0.21
YoY growth (%)	NA	NA	7,092.9	24.4	18.0
Consensus EPS (RMB)	NA	NA	0.28	0.27	0.12
P/E (x)	NA	543.5	7.6	6.1	5.1
ROE (%)	(3.6)	(0.4)	5.8	6.4	6.9

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$2.90
(Previous TP)	HK\$3.20
Up/Downside	152.2%
Current Price	HK\$1.15

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Stock Data

Mkt Cap (HK\$ mn)	3,166.0
Avg 3 mths t/o (HK\$ mn)	15.3
52w High/Low (HK\$)	2.65/0.97
Total Issued Shares (mn)	2753.0

Source: FactSet

Shareholding Structure

Fairview Ridge Investment	25.2%
Pegasus Network	10.7%

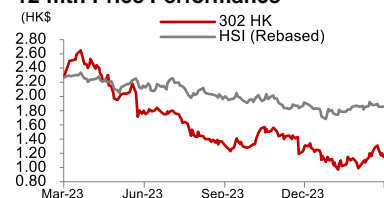
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	18.6%	18.3%
3-mth	-12.2%	-9.5%
6-mth	-14.2%	-7.6%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: CMGE's financial forecasts

RMB mn, Dec-YE	FY21	FY22	FY23	FY24E	FY25E	FY26E	24-26E CAGR
Revenue	3,957	2,714	2,606	3,428	4,139	4,724	17%
Game publishing	2,820	2,114	2,134	2,774	3,412	3,924	
Game development	905	453	215	387	434	477	
IP licensing	232	147	257	267	294	323	
Cost of sales	(2,483)	(1,602)	(1,663)	(2,143)	(2,566)	(2,905)	
Gross profit	1,473	1,112	943	1,286	1,573	1,819	19%
Selling and distribution expenses	(498)	(238)	(306)	(314)	(379)	(432)	
Administrative expenses	(446)	(731)	(526)	(590)	(704)	(803)	
Other expenses	(31)	(193)	(148)	(76)	(85)	(94)	
Operating profit	499	(50)	(37)	306	405	490	
Other income and gains	237	64	117	109	107	109	
Finance costs	(24)	(35)	(20)	(18)	(18)	(18)	
Share of profits and losses of JV	(4)	(0)	-	-	-	-	
Share of profits and losses of associates	(2)	(17)	4	(5)	(6)	(3)	
Pre-tax profit	705	(38)	64	392	489	579	
Tax	(57)	(41)	(12)	(39)	(49)	(58)	
Profit for the period from continuing operations	648	(80)	52	353	440	521	
Profit for the period from a discontinued operation	-	-	-	-	-	-	
Profit for the period	594	(217)	(38)	353	440	521	
MI	(18)	(12)	(18)	0	0	0	
Net profit attributable to ordinary shareholders	612	(205)	(20)	353	440	521	
Adj. net profit	630	(196)	5	387	481	568	21%
Margin Analysis							
Gross margin	37%	41%	36%	38%	38%	39%	
Operating margin	13%	-2%	-1%	9%	10%	10%	
Net margin	16%	-7%	0%	11%	12%	12%	
Growth Analysis							
Revenue	4%	-31%	-4%	32%	21%	14%	
Gross profit	20%	-25%	-15%	36%	22%	16%	
Operating profit	17%	NA	NA	-924%	33%	21%	
Net profit	-22%	NA	NA	7093%	24%	18%	

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	3,428	4,139	4,724	5,123	6,306	NA	-33.1%	-34.4%	NA
Gross profit	1,286	1,573	1,819	1,900	2,336	NA	-32.3%	-32.7%	NA
Operating profit	306	405	490	526	664	NA	-41.8%	-38.9%	NA
Adj. net profit	387	481	568	589	804	NA	-34.3%	-40.1%	NA
EPS (RMB)	0.14	0.17	0.21	0.28	0.27	NA	-50.1%	-35.6%	NA
Gross margin	37.5%	38.0%	38.5%	37.1%	37.0%	NA	+0.4ppts	+1.0ppts	NA
Operating margin	8.9%	9.8%	10.4%	10.3%	10.5%	NA	-1.3ppts	-0.7ppts	NA
Net margin	11.3%	11.6%	12.0%	11.5%	12.7%	NA	-0.2ppts	-1.1ppts	NA

Source: Bloomberg, CMBIGM estimates

Figure 3: Earnings revision

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	3,428	4,139	4,724	4,477	5,372	NA	-23.4%	-22.9%	NA
Gross profit	1,286	1,573	1,819	1,612	1,988	NA	-20.3%	-20.9%	NA
Operating profit	306	405	490	380	540	NA	-19.5%	-24.9%	NA
Adj. net profit	387	481	568	516	672	NA	-25.0%	-28.4%	NA
EPS (RMB)	0.14	0.17	0.21	0.19	0.24	NA	-26.4%	-27.5%	NA
Gross margin	37.5%	38.0%	38.5%	36.0%	37.0%	NA	+1.5ppts	+1.0ppts	NA
Operating margin	8.9%	9.8%	10.4%	8.5%	10.1%	NA	+0.4ppts	-0.3ppts	NA
Net margin	11.3%	11.6%	12.0%	11.5%	12.5%	NA	-0.2ppts	-0.9ppts	NA

Source: CMBIGM estimates

Figure 4: DCF valuation

DCF Valuation (Rmb mn)	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	409	507	596	752	929	1,125	1,339	1,569	1,810
Tax	(39)	(49)	(58)	(75)	(121)	(169)	(201)	(235)	(272)
D&A	37	35	33	34	36	38	40	42	44
Change in working capital	(47)	(270)	(220)	(187)	(189)	(191)	(193)	(194)	(196)
CAPEX	(30)	(30)	(30)	(31)	(31)	(32)	(32)	(33)	(34)
FCF	331	193	321	494	624	772	953	1,147	1,352
FCF Growth	-85.4%	-42%	67%	54%	26%	24%	23%	20%	18%
PV	331	168	244	326	359	387	416	436	4,355
Terminal Value									11,794

Assumptions	
WACC	14.8%
Tax rate	-15.0%
Risk free rate	3.95%
Beta	1.2
Market risk return	13.0%
Cost of equity	14.8%
Long term growth	3.0%

Equity Value	
PV	7,021
minus: Net debt (Rmb mn)	(211)
minus: Minority interest (Rmb mn)	0
Equity Value(Rmb mn)	7,232
FX	0.9
Target Price (HK\$) based on DCF	2.90

		WACC					
		~	13%	14%	15%	16%	17%
Terminal growth rate	1.5%	3.30	2.98	2.71	2.48	2.28	
	2.0%	3.39	3.05	2.77	2.53	2.32	
	2.5%	3.50	3.13	2.83	2.58	2.36	
	3.0%	3.61	3.22	2.90	2.64	2.41	
	3.5%	3.74	3.32	2.98	2.70	2.46	
	4.0%	3.88	3.43	3.06	2.76	2.51	
4.5%	4.04	3.55	3.16	2.84	2.57		

Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	3,957	2,714	2,606	3,428	4,139	4,724
Cost of goods sold	(2,483)	(1,602)	(1,663)	(2,143)	(2,566)	(2,905)
Gross profit	1,473	1,112	943	1,286	1,573	1,819
Operating expenses	(974)	(1,162)	(980)	(980)	(1,167)	(1,329)
Selling expense	(498)	(238)	(306)	(314)	(379)	(432)
Admin expense	(446)	(731)	(526)	(590)	(704)	(803)
Others	(31)	(193)	(148)	(76)	(85)	(94)
Operating profit	499	(50)	(37)	306	405	490
Interest income	237	64	117	109	107	109
Interest expense	(24)	(35)	(20)	(18)	(18)	(18)
Pre-tax profit	705	(38)	64	392	489	579
Income tax	(57)	(41)	(12)	(39)	(49)	(58)
After tax profit	648	(80)	52	353	440	521
Minority interest	(18)	(12)	(18)	0	0	0
Net profit	612	(205)	(20)	353	440	521
Adjusted net profit	630	(196)	5	387	481	568

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	3,325	2,231	2,216	2,421	2,942	3,509
Cash & equivalents	819	237	211	594	788	1,088
Account receivables	1,052	1,071	1,187	1,070	1,291	1,474
Prepayment	941	910	809	748	854	939
Other current assets	11	12	9	9	9	9
Non-current assets	4,517	4,923	4,874	5,124	5,350	5,532
PP&E	9	18	14	0	(3)	(7)
Deferred income tax	58	58	74	74	74	74
Investment in JVs & assos	236	161	159	159	159	159
Goodwill	1,108	1,125	1,059	1,023	1,023	1,023
Financial assets at FVTPL	1,897	2,099	2,021	2,021	2,021	2,021
Other non-current assets	1,209	1,461	1,546	1,847	2,076	2,262
Total assets	7,842	7,154	7,089	7,545	8,292	9,042
Current liabilities	23,353	26,784	27,449	30,072	31,774	33,719
Short-term borrowings	765	444	495	470	482	476
Account payables	378	308	261	279	337	384
Tax payable	135	133	115	115	115	115
Other current liabilities	489	283	312	69	69	69
Accrued expenses	4	7	2	2	2	2
Non-current liabilities	260	103	99	83	83	83
Deferred income	73	75	83	83	83	83
Other non-current liabilities	187	27	16	0	0	0
Total liabilities	23,357	26,791	27,451	30,074	31,776	33,721
Total shareholders equity	5,794	5,692	5,695	6,515	7,192	7,900
Total equity and liabilities	29,151	32,483	33,146	36,588	38,968	41,621

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	651	(175)	(26)	392	489	579
Depreciation & amortization	132	25	40	37	35	33
Change in working capital	(339)	(263)	(35)	(47)	(270)	(220)
Others	(88)	411	(16)	(34)	(43)	(55)
Net cash from operations	356	(2)	(37)	348	211	336
Investing						
Capital expenditure	(305)	(300)	(30)	(30)	(30)	(30)
Others	(690)	124	81	0	0	0
Net cash from investing	(995)	(177)	51	(30)	(30)	(30)
Financing						
Proceeds from share issues	702	0	0	0	0	0
Others	(651)	(588)	64	293	194	300
Net cash from financing	51	(588)	64	293	194	300
Net change in cash						
Cash at the beginning of the year	795	819	237	301	594	788
Exchange difference	(27)	7	0	0	0	0
Cash at the end of the year	819	237	301	594	788	1,088
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	3.6%	(31.4%)	(4.0%)	31.6%	20.7%	14.1%
Gross profit	20.5%	(24.6%)	(15.2%)	36.3%	22.4%	15.6%
Operating profit	16.7%	na	na	na	32.6%	20.8%
Net profit	(12.8%)	na	na	na	24.8%	18.4%
Adj. net profit	(21.9%)	na	na	7,092.6%	24.4%	18.0%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	37.2%	41.0%	36.2%	37.5%	38.0%	38.5%
Operating margin	12.6%	(1.9%)	(1.4%)	8.9%	9.8%	10.4%
Adj. net profit margin	15.9%	(7.2%)	0.2%	11.3%	11.6%	12.0%
Return on equity (ROE)	11.5%	(3.6%)	(0.4%)	5.8%	6.4%	6.9%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.0)	0.0	0.0	(0.0)	(0.0)	(0.1)
Current ratio (x)	0.1	0.1	0.1	0.1	0.1	0.1
Receivable turnover days	89.3	142.8	158.1	120.1	104.1	106.8
Payable turnover days	47.6	78.2	62.4	46.0	43.8	45.3
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E (diluted)	4.7	NA	543.5	7.6	6.1	5.1

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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