

CMGE Technology (302 HK)

Solid FY19; Strong momentum to continue

CMGE delivered solid FY19E results, with topline/bottom line +90%/82% YoY. Looking ahead, we expect CMGE to see strong 1H20E under COVID-19 benefit, and deliver solid growth in the run long, backed by valuable IP reserve, rich pipeline and Tencent & Toutiao cooperation. We keep our forecast and TP unchanged. Maintain BUY with TP of HK\$4.39.

- Solid FY19.** FY19 revenue grew 90% YoY, slightly below our estimates. Net profit grew 82% YoY, 0%/12% above our estimates/consensus. Such strong growth was primarily due to contribution of World of Legend – Thunder Empire (传奇世界之雷霆霸业). CMGE also announced final dividend of HK\$0.0355 per share, suggesting 1% yield ratio. Looking ahead, we expect CMGE to perform well in both 1Q20E (benefiting from COVID-19) and long run, and forecast its revenue/ adj. net profit to grow 28%/31% YoY in FY20E.
- Four key titles with Tencent & Toutiao cooperation to guarantee FY20E growth.** Based on our cross check, we estimate its game grossing at 58%/50% YoY growth in 2020 CNY/1Q20E, benefiting from the epidemic. Among its 29 games in pipeline, We expect SNK Top Battle<SNK 巅峰对决>, Dynasty Warriors <真·三国无双>, One Piece: The Voyage <航海王热血航线> and Monster List <妖怪名单> to deliver meaningful contribution in FY20E, generating RMB600mn/RMB1bn/RMB1bn/RMB600mn grossing in FY20E, backed by Tencent & Toutiao's cooperation.
- Chuanqi-themed games to bring upside.** We expect CMGE's five Chuanqi-themed games to contribute RMB2-3bn grossing. One chuan-qi themed game was launched in Jan, with monthly grossing > RMB60mn. We expect its heavy promotion in Mar to bring upside. On top of that, there are over 15 IP games to be launched in 2020 (e.g. series of The Legend of The Condor Heroes <射雕三部曲>).
- Maintain BUY.** We barely changed our forecasts, and keep our DCF-based TP of HK\$4.39 unchanged (implying 11.4x FY20E P/E), still below industry average of 20x P/E. Valuation is attractive. We believe CMGE's positive price drivers and catalysts originate from: 1) strong game pipeline; and 2) eye-catching 1Q20E grossing benefiting from the epidemic.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	1,596	3,036	4,370	5,192	5,938
YoY change (%)	58%	90%	44%	19%	14%
Adj. net income (RMB mn)	335	611	802	960	1,091
Adj. EPS (RMB)	NA	0.32	0.34	0.41	0.47
YoY growth (%)	NA	NA	6%	20%	14%
Consensus EPS (RMB)	NA	NA	0.35	0.36	0.20
P/E (x)	NA	NA	7.2	6.0	5.3
P/S (x)	3.6	1.9	1.3	1.1	1.0
Yield (%)	0	1%	0%	0	0
ROE (%)	22.81	21.92	20.31	20.51	19.08
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price	HK\$4.39
(Previous TP)	HK\$4.39)
Up/Downside	+60.2%
Current Price	HK\$2.74

China Internet Sector

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Stock Data

Mkt Cap (HK\$ mn)	6,385
Avg 3 mths t/o (HK\$ mn)	45.69
52w High/Low (HK\$)	4.49/2.43
Total Issued Shares (mn)	2,330

Source: Bloomberg

Shareholding Structure

Fairview Ridge Investment	29.8%
Pegasus Network	12.6%
Hotel Zhike	12.5%

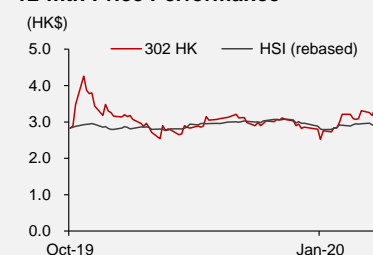
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	9.6%	14.3%
3-mth	5.4%	2.6%
6-mth	NA	NA

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

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Figure 1: CMGE's FY19 financials review

RMB mn, Dec-YE	FY18	FY19	YoY
Revenue	1,596	3,036	90%
Cost of sales	(1,064)	(1,953)	84%
Gross profit	532	1,083	103%
Selling and distribution expenses	(148)	(230)	56%
Administrative expenses	(149)	(577)	288%
Other expenses	(8)	(21)	159%
Operating profit	228	255	12%
Other income and gains	124	95	
Finance costs	(9)	(15)	
Share of profits and losses of JV	(4)	(2)	
Share of profits and losses of associates	18	11	
Pre-tax profit	356	344	-3%
Tax	(40)	(100)	
Profit for the period from continuing operations	316	243	-23%
Profit for the period from a discontinued operation	-	-	
Profit for the period	316	243	-23%
MI	5	(5)	
Net profit attributable to ordinary shareholders	311	248	-20%
Adj. net profit	335	611	82%
Margin Analysis			
Gross margin	33%	36%	+3ppts
Operating margin	14%	8%	-6ppts
Net margin	21%	20%	-1ppts

Source: Company data

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	1,596	3,036	4,376	5,192	5,938
Game publishing	1,400	2,553	3,678	4,341	4,928
Game development	178	421	621	773	924
IP licensing	18	62	71	78	86
COGS	(1,064)	(1,953)	(2,865)	(3,408)	(3,900)
Gross profit	532	1,083	1,505	1,784	2,038
S&M	(148)	(230)	(350)	(389)	(445)
R&D	(149)	(577)	(299)	(362)	(404)
Other expenses	(8)	(21)	(22)	(26)	(30)
Operating profit	228	255	834	1,007	1,159
Other income	124	95	109	123	124
Finance costs	(9)	(15)	-	-	-
Associates	14	8	-	-	-
Pre-tax Income	356	344	944	1,129	1,284
Income Tax	(40)	(100)	(142)	(169)	(193)
MI	5	(5)	-	-	-
Net profit	311	248	802	960	1,091
Adj. net profit	335	611	802	960	1,091

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Pre-tax Income	356	719	944	1,128	1,284
D&A	36	22	7	8	9
Change in WC	(245)	80	83	(27)	(27)
Others	(87)	(161)	(211)	(239)	(212)
Operating CF	60	660	823	870	1,053
Capex	(103)	(35)	(30)	(30)	(30)
Others	(325)	0	0	0	0
Investing CF	(428)	(35)	(30)	(30)	(30)
Equity raised	(1)	1,200	-	-	-
Others	(102)	574	793	840	1,023
Financing CF	(104)	1,774	793	840	1,023
Net change in cash	(104)	1,774	793	840	1,023
Cash (beg of yr)	246	144	1,918	2,711	3,111
FX	3	-	-	-	-
Cash (end of yr)	144	1,918	2,711	3,552	4,134

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	2,032	2,593	2,208	2,265	2,319
Fixed asset	6	5	2	(0)	(2)
Goodwill	1,119	1,119	1,023	1,023	1,023
Intangible assets	118	155	134	159	182
Others	947	1,570	1,325	1,412	1,491
Current assets	960	1,965	2,857	3,862	4,283
Cash	144	711	2,217	3,111	4,134
Trade receivables	472	790	416	497	574
Other current assets	343	404	224	254	281
Current liabilities	755	1,284	679	765	840
Bank loans	51	442	-	-	-
Trade and other payables	575	687	542	627	702
Tax payable	41	117	117	117	117
Other current liabilities	88	37	21	21	21
Non-current liabilities	395	213	196	196	196
Deferred tax liabilities	30	32	32	32	32
Contingent consideration	268	163	163	163	163
Others	97	17	-	-	-
Total Equity	1,863	3,712	4,190	5,167	6,271

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Game publishing	87.7	84.1	84.2	83.6	83.0
Game development	11.1	13.9	14.2	14.9	15.6
IP licensing	1.1	2.0	1.6	1.5	1.4
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	57.6	90.2	43.9	18.8	14.4
Gross profit	56.4	103.4	39.0	18.5	14.2
EBIT	139.2	11.9	227.4	20.6	15.2
Net profit	2.8	82.1	31.3	19.6	13.7
P&L ratios (%)					
Gross Margin	33.4	35.7	34.4	34.4	34.3
Pre-tax margin	22.3	11.3	21.6	21.7	21.6
Adj. net margin	19.5	20.1	18.4	18.5	18.4
Effective tax rate	(11.3)	(29.2)	(15.0)	(15.0)	(15.0)
Returns (%)					
ROE	22.8	22.1	20.3	20.5	19.1
ROA	15.3	16.4	15.6	17.1	16.2

Source: Company data, CMBIS estimates

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