

# CMGE Technology (302 HK)

## Reaccelerate on strong pipeline in FY23E

We like online games for its steady competition landscape, healthy cash flow and resilience to macro. As an IP-oriented game publisher pioneer, CMGE is well positioned to capture industrial structural recovery, backed by game license normalization and strong pipeline. FY23/24E would be fruitful years for CMGE, with ~20 titles to be launched (e.g. *Soul Land: Shrek College*, *Sword and Fairy: Wen Qing*). *Sword and Fair World* (仙劍世界), a self-developed metaverse platform, will bring further upside if it is executed well. We forecast its topline/bottom line to surge 96%/7.6x in FY23E. Resume coverage with BUY rating, with DCF-based TP at HK\$3.52 (implying 14x/11x FY23/24E P/E).

■ **Riding on game structural recovery.** We turned more positive on game sector outlook in 2023 (forecast industrial rev +7% YoY), backed by 1) normalized pace of game license approvals; 2) abundant high-quality pipelines; and 3) low base in 2022. Sector grossing in Jan & Feb performed well, with steady growth of key existing games and strong newly launched titles (e.g. <Eggy Go> and <Undawn>). We like online games for its steady competition landscape, healthy cash flow and resilience to macro, compared to other sub-sectors. We expect regulatory relaxation and rising grossing would help this sector to rerate. CMGE, as an IP-oriented game publisher pioneer, is well positioned to capture the industrial structural recovery.

■ **Strong pipeline with game licenses to support reacceleration.** We suggest investors to look beyond CMGE's soft FY22 (forecasting rev/adj.NP -31%/90% YoY). FY23/24E would be fruitful years for CMGE, as ~20 games are planned to be launched, including self-developed titles such as *Soul Land: Shrek College* (斗罗大陆: 史萊克學院) and *Sword and Fair World* (仙劍世界) and key titles such as *Cultivation Fantasy* (我的御劍日記) and *Sword and Fairy: Wen Qing* (新仙劍之揮劍問情). We forecast rev +96% YoY in FY23E, with eight launches in FY23E and full-year contribution from two games launched in 2H22. We expect overseas expansion (mainly in Southeast Asia) to accelerate with rev to grow 227% YoY in FY23E and account for ~25% of revenue in FY23E. NPM will sequentially improve, backed by revenue mix shift toward self-developed games, and overseas expansion.

■ **Resume with BUY.** We resumed coverage with DCF-based TP at HK\$3.52, to reflect improving regulatory environment and company's strong pipeline. Key catalysts: 1) *Sword and Fair World* promotion video (PV) by end-Mar; and 2) blockbuster games in 2H23E.

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	3,820	3,957	2,723	5,350	7,403
YoY change (%)	26%	4%	-31%	96%	38%
Adj. net income (RMB mn)	807	612	70	601	812
Adj. EPS (RMB)	0.35	0.26	0.03	0.22	0.29
YoY growth (%)	7%	-24%	-90%	759%	35%
Consensus EPS (RMB)	NA	NA	0.27	0.24	0.32
P/E (x)	5.4	7.1	73.5	8.6	6.3
P/S (x)	1.1	1.1	1.6	0.8	0.6
Yield (%)	3%	3%	3%	3%	3%
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

Target Price **HK\$3.52**  
 Up/Downside **+68.4%**  
 Current Price **HK\$2.09**

### China Internet Sector

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### Stock Data

Mkt Cap (HK\$ mn)	6,145
Avg 3 mths t/o (HK\$ mn)	28.22
52w High/Low (HK\$)	2.72/ 1.10
Total Issued Shares (mn)	2,768

Source: Bloomberg

### Shareholding Structure

Fairview Ridge Investment	25.1%
Pegasus Network	10.6%
Bilibili	7.2%

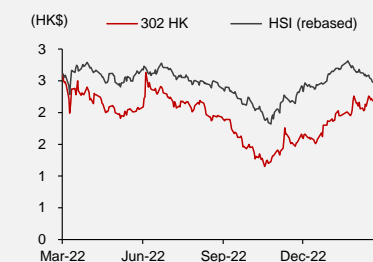
Source: Bloomberg

### Share Performance

	Absolute	Relative
1-mth	0.4%	5.8%
3-mth	36.7%	29.8%
6-mth	17.6%	9.9%

Source: Bloomberg

### 12-mth Price Performance



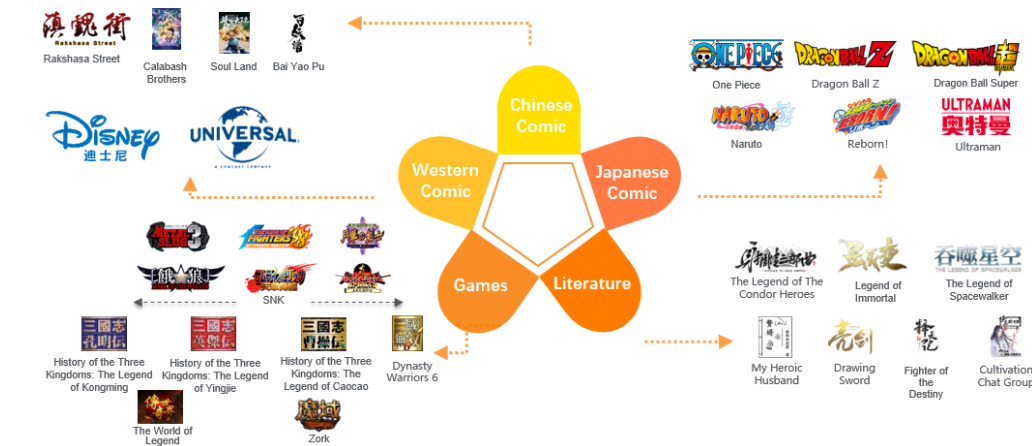
Source: Bloomberg

Auditor: Ernst & Young

## IP-oriented game publisher pioneer





As a leading game publisher in China, CMGE excelled itself with abundant valuable IP reserve and rich pipeline. Supported by deep cooperation with IP owners and IP investment, CMGE holds the largest reserve of 123 IPs (55 licensed IPs & 68 proprietary IPs) in China. We expect CMGE to leverage its existing well-known IPs to derive abundant adapted games, and attract loyal game players with longer life cycle. Unlike most listed peers who are highly dependent on several flagships, CMGE excelled itself with strong portfolio and pipeline to guarantee stable performance.

**Figure 1: Abundant IP Reserves of CMGE**



Source: Company data, CMBIGM

**Figure 2: CMGE successfully launched a number of IP games**

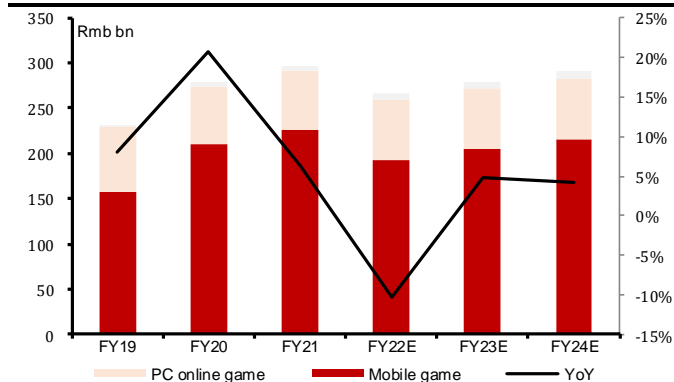
 <p><b>One Piece: The Voyage</b></p> <ul style="list-style-type: none"> <li>Ranked No.1 on the Top Free Game List of App Store and entered the iOS Grossing Chart Top 3</li> <li>Revenue being over 400 million RMB in the first month of its launch</li> </ul>	 <p><b>The New Legend of The Condor Heroes: Iron Blood and Loyal Heart</b></p> <ul style="list-style-type: none"> <li>Entered the iOS Grossing Chart Top 10 for multiple days, and #5 was the highest rank</li> <li>Reached No.1 on the Top Free Game List on Apple Store, in the first month of its launch in Hong Kong, Macau and Taiwan</li> </ul>	 <p><b>Thunder Empire</b></p> <ul style="list-style-type: none"> <li>Monthly revenue exceeded 200 million RMB</li> </ul>	 <p><b>Dynasty Warriors: Hegemony</b></p> <ul style="list-style-type: none"> <li>The authentic mobile game of Dynasty Warriors series is officially authorized by Japan's Koei Tecmo, developed by CMGE, and published by Tencent Games</li> <li>Ranked No.1 on the Top Free Game List of App Store and entered the iOS Grossing Chart Top 8</li> </ul>
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Source: Company data, CMBIGM

## Well positioned to capture game structural recovery

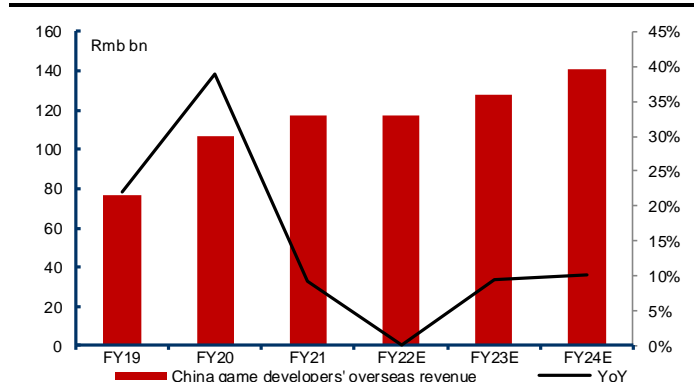
FY22 was a challenging year for game sector (forecast industrial rev -10% YoY), due to weak macro, minor protection and license suspension. We expect game sector to embrace a better outlook in FY23E (forecast industrial rev +7% YoY), given 1) normalized pace of game license approvals; 2) abundant high-quality pipeline; and 3) low base in FY22. We like online games for its steady competition landscape, healthy cash flow and resilience to macro, compared to ads, e-commerce and other pan-entertainment sub-sectors. We expect regulatory relaxation and rising grossing would help this sector to rerate. CMGE, as an IP-oriented game publisher pioneer, is well positioned to capture the industrial structural recovery.

**Figure 3: China online game mkt size forecast**



Source: GPC, CMBIGM estimates

**Figure 4: China game developers' overseas revenue**

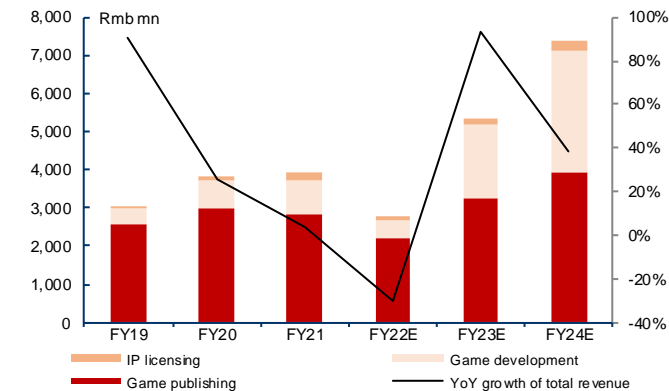


Source: GPC, CMBIGM estimates

## Looking beyond soft FY22

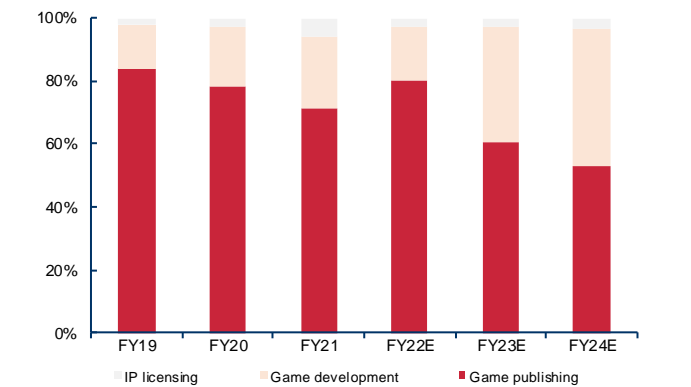
We model CMGE's rev -31% YoY in FY22E, with adj. NP -90% YoY, mainly on heavy investment in *Sword and Fair World* (仙劍世界) and other self-developed games. However, GPM would lift up to 39.6% in FY22E (vs. 37.2% in FY21), attributable to overseas expansion (lower channels charge) and revenue mix shift toward self-developed games. As the market has already well anticipated the softness, we suggest to look beyond FY22 and move into fruitful FY23/24E, backed by 1) loosening of regulation, 2) strong pipeline, 3) overseas expansion and 4) low base in FY22.

**Figure 5: CMGE rev estimates (2019-2024E)**



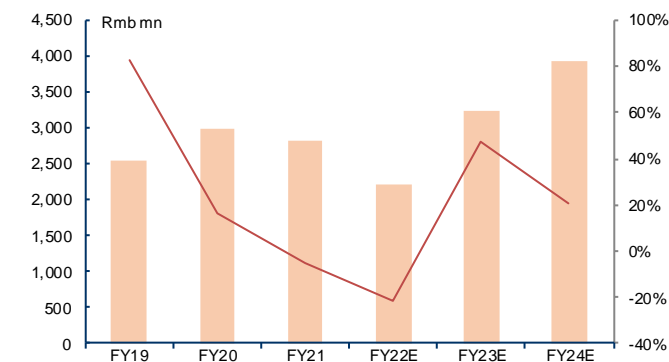
Source: Company data, CMBIGM estimates

**Figure 6: Rev mix trend (2019-2024E)**



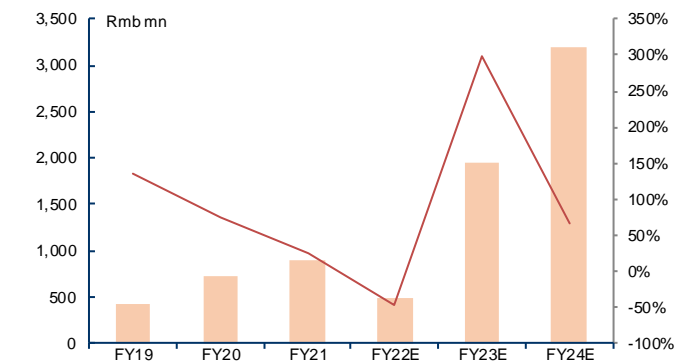
Source: Company data, CMBIGM estimates

**Figure 7: Game publishing growth estimates**



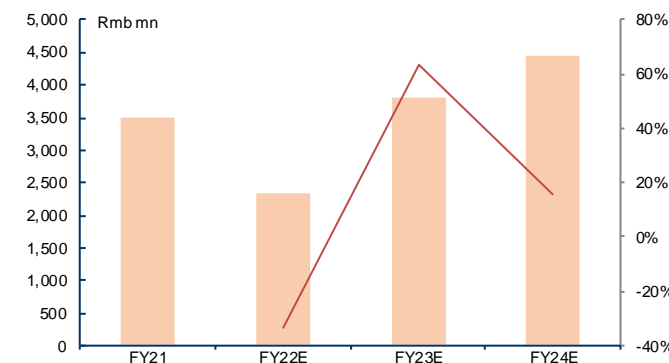
Source: Company data, CMBIGM estimates

**Figure 8: Game development growth estimates**



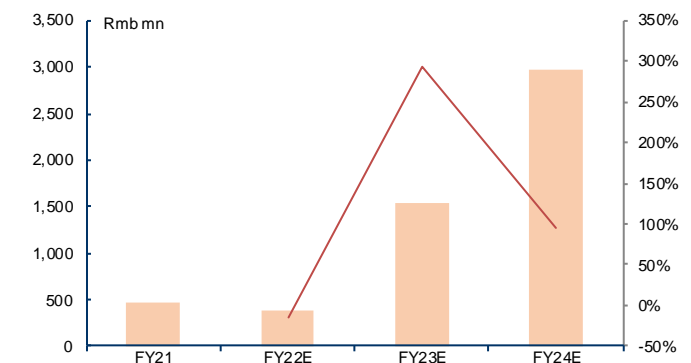
Source: Company data, CMBIGM estimates

**Figure 9: Domestic business growth estimates**



Source: Company data, CMBIGM estimates

**Figure 10: Overseas business growth estimates**



Source: Company data, CMBIGM estimates

## FY23/24E to reaccelerate on strong pipeline

FY23/24E would be fruitful years for CMGE, as around 20 games will be launched, including self-developed titles such as *Soul Land: Shrek College* (斗罗大陆: 史莱克学院) and *Sword and Fairy World* (仙剑世界) and key titles such as *Cultivation Fantasy* (我的御剑日记) and *Sword and Fairy: Wen Qing* (新仙剑之挥剑问情). We now model rev +96% YoY in FY23E, mainly attributable to eight launches in FY23E and full-year contribution from *The King of Fighter: All stars* (全明星激斗) and *Rakshasa Street: Chosen One* (镇魂街: 天生为王), both of which were launched in 2H22. Although blockbuster games in 2H23 such as *Soul Land: Shrek College* (斗罗大陆: 史莱克学院) and *Sword and Fairy World* (仙剑世界) have not been granted licenses yet, we believe launches are less likely to delay as the Company's application for game licenses has been approved.

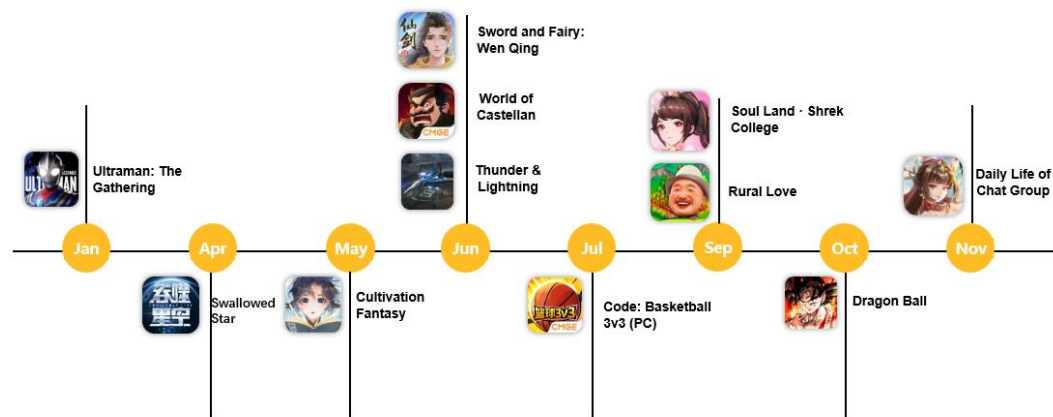
We expect overseas expansion (mainly in Southeast Asian countries) to accelerate and account for ~25% of revenue in FY23E (vs.~15% in FY22E), supported by abundant overseas pipeline of 15 titles. We forecast overseas rev +227% YoY in FY23E (low base in FY22), in which overseas versions of *Soul Land: Shrek College* (斗罗大陆: 史莱克学院), *Sword and Fairy: Wen Qing* (新仙剑之挥剑问情), *The King of Fighter: All stars* (全明星激斗) are estimated to contribute 62% of total overseas rev (with annual grossing of RMB253mn/294mn/198mn).

**Figure 11: CMGE key game pipeline in 2023 & 2024**

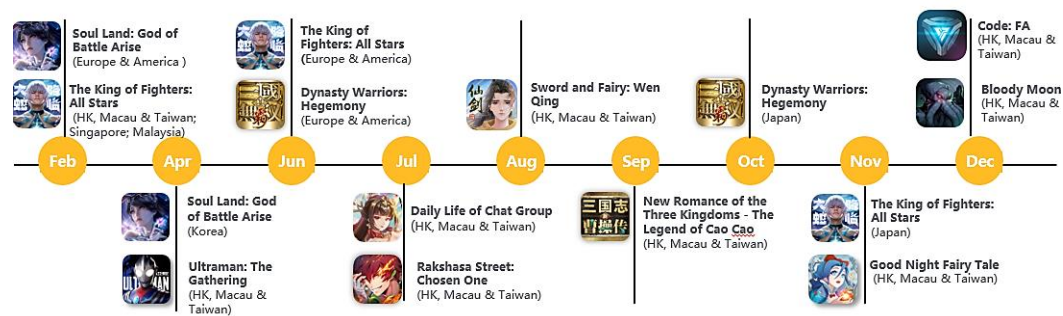
Title	Chinese title	License	Genre	(est.)Launch date	Detail
<b>Sword and Fairy World</b>	仙剑世界	N	PRG/Open world	3Q23	Self-developed
<b>Sword and Fairy: Wen Qing</b>	新仙剑之挥剑问情	Y	PRG/CCG	2Q23	
<b>Soul Land · Shrek College</b>	斗罗大陆:史莱克学院	N	MMORPG	3Q23	
Swallowed Star	吞噬星空	Y	Action/CCG	1Q23	
Cultivation Fantasy	我的御剑日记	Y	CCG	2Q23	Self-developed
Basketball 3v3	街篮 3v3	Y	Sports	3Q23	
World of Castellan	城主天下	Y	SLG	2Q23	
Soul Land · reverse time and space	斗罗大陆:逆转时空	N	MMORPG	2024	
DreamWorks: All Stars	梦工厂全明星	N	ARPG	2024	
Battle Through the Heaven	斗破苍穹	N	ARPG	2024	
Disney: All Stars	迪士尼全明星	N	ARPG	2024.	
Soul Land · Longyuan	斗罗大陆:龙渊	N	MMORPG	2024	

Source: Company data, CMBIGM



**Figure 12: Pipeline of new games in 2023 (China)**

Source: Company data, CMBIGM

**Figure 13: Pipeline of new games in 2023 (overseas)**

Source: Company data, CMBIGM

**Figure 14: Key titles to be launched in FY23E**

Source: Company data, CMBIGM

Figure 15: CMGE's FY22E preview

RMB mn, Dec-YE	FY19	FY20	FY21	FY22E	FY23E	FY24E	22-24E CAGR
<b>Revenue</b>	<b>3,036</b>	<b>3,820</b>	<b>3,957</b>	<b>2,723</b>	<b>5,350</b>	<b>7,403</b>	65%
Game publishing	2,553	2,978	2,820	2,179	3,247	3,930	34%
Game development	421	730	905	474	1,941	3,207	160%
IP licensing	62	112	232	70	162	267	95%
Domestic business			3,498	2,335	3,820	4,434	38%
Overseas business			459	388	1,530	2,970	177%
Cost of sales	(1,953)	(2,597)	(2,483)	(1,645)	(3,156)	(4,368)	
<b>Gross profit</b>	<b>1,083</b>	<b>1,223</b>	<b>1,473</b>	<b>1,079</b>	<b>2,193</b>	<b>3,035</b>	68%
Selling and distribution expenses	(230)	(341)	(498)	(231)	(540)	(755)	
Administrative expenses	(577)	(404)	(446)	(705)	(893)	(1,259)	
Other expenses	(21)	(50)	(31)	(34)	(38)	(34)	
<b>Operating profit</b>	<b>255</b>	<b>428</b>	<b>499</b>	<b>108</b>	<b>721</b>	<b>987</b>	203%
Other income and gains	95	389	237	-	-	-	
Finance costs	(15)	(35)	(24)	(23)	(25)	(24)	
Share of profits and losses of JV	(2)	0	(4)	(4)	(3)	(4)	
Share of profits and losses of associates	11	(13)	(2)	(3)	(6)	(4)	
<b>Pre-tax profit</b>	<b>344</b>	<b>769</b>	<b>705</b>	<b>78</b>	<b>687</b>	<b>956</b>	250%
Tax	(100)	(27)	(57)	(8)	(86)	(143)	
<b>Profit for the period from continuing operations</b>	<b>243</b>	<b>742</b>	<b>648</b>	<b>70</b>	<b>601</b>	<b>812</b>	241%
Profit for the period from a discontinued operation	-	-	-	-	-	-	
<b>Profit for the period</b>	<b>243</b>	<b>690</b>	<b>594</b>	<b>70</b>	<b>601</b>	<b>812</b>	241%
MI	(5)	(11)	(18)	0	0	0	
<b>Net profit attributable to ordinary shareholders</b>	<b>248</b>	<b>701</b>	<b>612</b>	<b>70</b>	<b>601</b>	<b>812</b>	241%
<b>Adj. net profit</b>	<b>611</b>	<b>807</b>	<b>612</b>	<b>70</b>	<b>601</b>	<b>812</b>	241%
<b>Margin Analysis</b>							
Gross margin	36%	32%	37%	40%	41%	41%	
Operating margin	8%	11%	13%	4%	13%	13%	
Net margin	20%	21%	15%	3%	11%	11%	
<b>Growth Analysis</b>							
Revenue	90%	26%	4%	-31%	96%	38%	
Gross profit	103%	13%	20%	-27%	103%	38%	
Operating profit	12%	68%	17%	-78%	570%	37%	
Net profit	82%	32%	-24%	-89%	759%	35%	

Source: Company data, CMBIGM estimates

CMGE plans to launch *Sword and Fairy World* in 2H23E. *Sword and Fairy World* aims to be a social platform, like TapTap, to maintain core users base for games in the future. *Sword and Fairy World* is an open world game + entertainment and social networking Metaverse platform. It will provide gaming experience on all platforms, including mobile phone, PC, console and VR equipment and get a super "immersive" game experience. Users could enter *Sword and Fairy World* with VR equipment, acquire virtual identities and explore different regions in *Sword and Fairy World*, such as experiencing the immersive gameplay, sightseeing and enjoying virtual performance in *Sword and Fairy Metaverse*.

**Figure 16: Introduction of Sword and Fairy World**



Source: Company data, CMBIGM

**Figure 17: Gameplay of Sword and Fairy World**



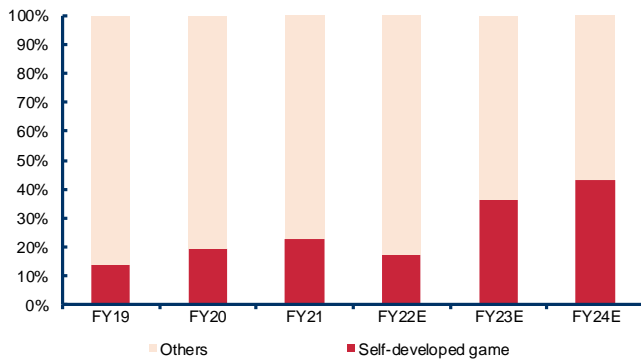
Source: Company data, CMBIGM



## Margin to sequentially improve

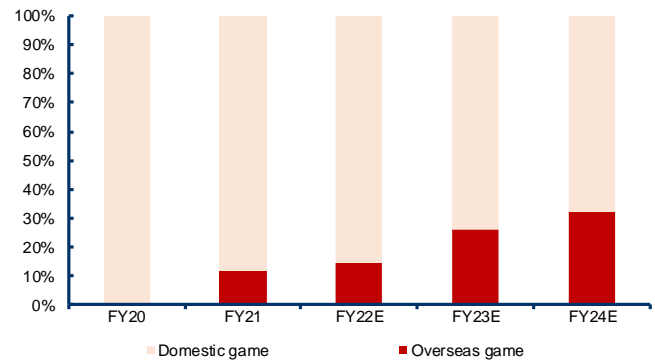
We expect adj. NPM to improve to 11% in FY23/24E from 3% in FY22E, backed by revenue mix shift toward self-developed games, and overseas expansion (lower channels charge). R&D expenses and S&M expenses ratio would be relatively stable even with new launches. As such, we forecast CMGE to deliver 65%/241% topline/bottom line CAGR during FY22-24E.

**Figure 18: Self-developed game as % of total rev**



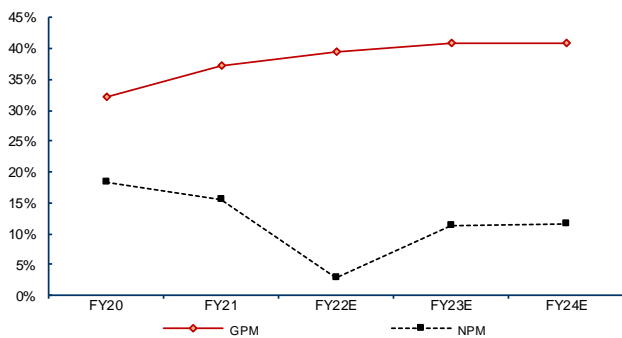
Source: Company data, CMBIGM estimates

**Figure 19: Overseas game as % of total rev**



Source: Company data, CMBIGM estimates

**Figure 20: Margin trend**



Source: Company data, CMBIGM estimates

## Resume with BUY (TP at HK\$3.52)

We resumed coverage with BUY rating, with DCF-based TP at HK\$3.52 (implying 14x/11x FY23/24E P/E), to reflect improving regulatory environment and Company's strong pipeline. Our DCF-based FY23E P/E for CMGE is not demanding, as it is in line with SMID-caps, and 8%/34% discount to China peers/global peers.

The stock rebounded by 76% from its trough in Oct 2022 (YTD +12%) and outperformed China online game sector with low FY23E P/E for relatively short successful game launch track record despite strong pipeline. But we still see upside ahead, given 1) we make conservative estimates on some high-quality titles (e.g. <World of Castellan> and <Basketball 3v3>); 2) valuation may be boosted by *Sword and Fairy World*, a platform game, which aims to maintain core users base for games in the future. The stock is trading at 8.6x/6.3x FY23/24E P/E, with attractive valuation. We expect its multiple to rerate, considering its abundant pipeline, strong earnings growth and low grossing concentration. Key catalysts: 1) *Sword and Fair World* promotion video (PV) by end-Mar; and 2) blockbuster games in 2H23E.

Figure 21: CMBIGM estimates vs consensus

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E
Revenue	2,723	5,350	7,403	2,901	4,772	6,075	-6.1%	12.1%	21.9%
Gross profit	1,079	2,193	3,035	1,156	1,907	2,415	-6.7%	15.0%	25.7%
Operating profit	108	721	987	307	740	1,022	-64.9%	-2.6%	-3.4%
Adj. net profit	70	601	812	NA	559	843	NA	7.5%	-3.7%
Adj. EPS (RMB)	0.03	0.22	0.29	0.27	0.24	0.32	-90.6%	-7.6%	-8.3%
Gross margin	39.6%	41.0%	41.0%	39.9%	40.0%	39.8%	-0.3ppts	+1.0ppts	+1.2ppts
Operating margin	4.0%	13.5%	13.3%	10.6%	15.5%	16.8%	-6.6ppts	-2.0ppts	-3.5ppts
Adj. net margin	2.6%	11.2%	11.0%	NA	11.7%	13.9%	NA	-0.5ppts	-2.9ppts

Source: CMBIGM estimates, Bloomberg

Figure 22: DCF valuation

DCF Valuation (Rmb mn)									
	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	100	712	980	1,278	1,610	1,965	2,333	2,704	3,070
Tax	(8)	(86)	(143)	(222)	(280)	(342)	(406)	(470)	(534)
D&A	9	10	11	11	12	12	13	14	14
Change in working capital	161	(782)	(698)	(733)	(770)	(808)	(849)	(891)	(936)
CAPEX	(30)	(30)	(30)	(32)	(33)	(35)	(36)	(38)	(40)
FCF	232	(176)	119	302	539	792	1,054	1,318	1,574
FCF Growth				155%	78%	47%	33%	25%	19%
PV	232	(176)	103	229	356	456	529	575	5,819
Terminal Value									13,728

### Assumptions

WACC	14.8%
Tax rate	-17.0%
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	7,892
minus: Net debt (Rmb mn)	(772)
minus: Minority interest (Rmb mn)	0
Equity Value(Rmb mn)	8,664
FX	0.89
Target Price (HK\$) based on DCF	3.52

		WACC				
Terminal growth rate	~	13%	14%	15%	16%	17%
	1.5%	3.97	3.58	3.25	2.98	2.74
	2.0%	4.10	3.68	3.34	3.04	2.79
	2.5%	4.24	3.79	3.42	3.11	2.85
	3.0%	4.39	3.91	3.52	3.19	2.91
	3.5%	4.56	4.05	3.63	3.28	2.98
	4.0%	4.75	4.19	3.74	3.37	3.06
	4.5%	4.96	4.35	3.86	3.47	3.14

Source: CMBIGM estimates, Bloomberg

**Figure 23: Comps table**

Company	Ticker	Mkt cap (USD mn)	Currency	Price	CMBI Rating	CMBI TP	PE			PS			FY22-24 EPS CAGR
							FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	
<b>CMGE</b>	<b>302 HK</b>	<b>783</b>	<b>HKD</b>	<b>2.1</b>	<b>BUY</b>	<b>3.52</b>	<b>NA</b>	<b>8.6</b>	<b>6.3</b>	<b>1.8</b>	<b>1.1</b>	<b>0.9</b>	<b>241%</b>
<b>Domestic Game</b>													
Tencent	700 HK	443,678	HKD	364	BUY	450	26.3	21.5	18.5	5.6	5.0	4.5	19%
NetEase	NTES US	56,419	USD	86	BUY	116	16.7	15.1	13.5	3.7	3.4	3.1	8%
XD Inc	2400 HK	1,591	HKD	26	NA	NA	NA	NA	32.0	3.3	2.5	2.0	NA
Kingsoft	3888 HK	4,738	HKD	27	NA	NA	NA	50.9	30.9	4.3	3.6	3.1	NA
IGG	799 HK	444	HKD	3	NA	NA	NA	70.5	11.9	0.7	0.7	0.7	NA
FriendTimes	6820 HK	319	HKD	1	BUY	3	NA	8.7	4.7	1.4	1.2	0.9	389%
Archosaur Games	9990 HK	730	HKD	7	NA	NA	NA	NA	NA	5.1	2.8	0.5	NA
Perfect World	002624 CH	4,152	CNY	15	BUY	49	17.9	15.7	13.3	3.5	3.0	2.6	16%
Sanqi Interactive	002555 CH	7,522	CNY	23	BUY	30	17.3	15.0	13.3	3.2	2.7	2.4	14%
<b>Average</b>							<b>19.6</b>	<b>15.2</b>	<b>12.5</b>	<b>3.4</b>	<b>2.8</b>	<b>2.2</b>	<b>14%</b>
<b>International Game</b>													
Activision Blizzard	ATVI US	62,264	USD	79	NA	NA	20.3	18.7	17.0	6.6	6.5	6.0	8%
Electronic Arts	EA US	31,029	USD	113	NA	NA	18.5	17.2	15.5	4.3	4.1	3.8	10%
Take-Two	TTWO US	19,684	USD	117	NA	NA	34.2	22.0	15.1	3.7	3.1	2.5	45%
ROBLOX	RBLX US	25,034	USD	41	NA	NA	NA	NA	NA	8.1	7.2	6.4	NA
Nintendo	7974 JT	49,530	JPY	5,191	NA	NA	16.8	18.8	19.7	4.2	4.4	4.5	-8%
Bandai Namco	7832 JT	14,001	JPY	8,584	NA	NA	19.1	18.7	16.9	2.0	1.9	1.8	6%
Square Enix	9684 JT	5,681	JPY	6,310	NA	NA	16.5	16.3	16.8	2.3	2.0	2.1	-1%
Z Holdings	4689 JT	20,908	JPY	373	NA	NA	16.0	28.6	23.0	1.7	1.5	1.4	-18%
CyberAgent	4751 JT	4,175	JPY	1,123	NA	NA	26.5	19.2	14.1	0.8	0.7	0.7	38%
Sony	6758 JT	109,839	JPY	11,855	NA	NA	17.2	16.3	14.7	1.3	1.2	1.2	9%
Capcom	9697 JT	8,664	JPY	4,425	NA	NA	32.8	29.7	26.3	9.7	8.7	7.9	11%
Oriental Land	4661 JT	57,462	JPY	21,505	NA	NA	NA	80.0	60.0	16.6	13.9	11.6	36%
Nexon	3659 JT	19,712	JPY	3,095	NA	NA	24.6	21.5	19.8	6.5	5.9	5.5	12%
<b>Average</b>							<b>22.0</b>	<b>20.6</b>	<b>18.1</b>	<b>5.2</b>	<b>4.7</b>	<b>4.3</b>	<b>12%</b>
<b>Average</b>							<b>21.4</b>	<b>18.9</b>	<b>17.3</b>	<b>4.5</b>	<b>3.9</b>	<b>3.4</b>	<b>13%</b>

Source: Bloomberg, CMBIGM

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Revenue</b>	3,820	3,957	2,723	5,350	7,403
Game publishing	2,978	2,820	2,179	3,247	3,930
Game development	730	905	474	1,941	3,207
IP licensing	112	232	70	162	267
<b>COGS</b>	(2,597)	(2,483)	(1,645)	(3,156)	(4,368)
<b>Gross profit</b>	1,223	1,473	1,079	2,193	3,035
S&M	(341)	(498)	(231)	(540)	(755)
R&D	(404)	(446)	(705)	(893)	(1,259)
Other expenses	(50)	(31)	(34)	(38)	(34)
<b>Operating profit</b>	428	499	108	721	987
Other income	389	237	-	-	-
Finance costs	(35)	(24)	(23)	(25)	(24)
Associates	(13)	(7)	(7)	(9)	(8)
<b>Pre-tax Income</b>	769	705	78	687	956
Income Tax	(27)	(57)	(8)	(86)	(143)
MI	(11)	(18)	-	-	-
<b>Net profit</b>	701	612	70	601	812
<b>Adj. net profit</b>	807	612	70	601	812

### Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Pre-tax Income</b>	717	651	78	687	956
D&A	82	132	9	10	11
Change in WC	(72)	(339)	161	(782)	(698)
Others	(117)	(88)	4	(74)	(132)
<b>Operating CF</b>	611	356	251	(160)	136
Capex	(30)	(30)	(30)	(30)	(30)
Others	(842)	(965)	0	0	0
<b>Investing CF</b>	(872)	(995)	(30)	(30)	(30)
Equity raised	459	702	-	-	-
Others	(391)	(651)	65	(111)	67
<b>Financing CF</b>	69	51	65	(111)	67
<b>Net change in cash</b>	69	51	65	(111)	67
Cash (beg of yr)	771	795	819	883	772
FX	(45)	(27)	-	-	-
<b>Cash (end of yr)</b>	795	819	883	772	839

### Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Non-current assets</b>	3,321	4,517	3,725	4,061	4,431
Fixed asset	6	9	(2)	(5)	(7)
Goodwill	1,108	1,108	1,023	1,023	1,023
Intangible assets	155	537	182	204	226
Others	2,234	3,457	2,712	3,129	3,558
<b>Current assets</b>	3,010	3,325	2,117	3,010	3,962
Cash	795	819	883	772	839
Trade receivables	883	1,052	780	1,467	2,002
Other current assets	1,332	1,454	455	771	1,121
<b>Current liabilities</b>	1,464	1,788	1,021	1,322	1,469
Bank loans	451	765	608	686	647
Trade and other payables	841	867	258	480	667
Tax payable	138	135	135	135	135
Other current liabilities	34	21	20	20	20
<b>Non-current liabilities</b>	66	260	251	251	251
Deferred tax liabilities	53	73	73	73	73
Contingent consideration	-	178	178	178	178
Others	13	8	-	-	-
<b>Total Equity</b>	4,801	5,794	4,569	5,498	6,672

### Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Sales mix (%)</b>					
Game publishing	77.9	71.3	80.0	60.7	53.1
Game development	19.1	22.9	17.4	36.3	43.3
IP licensing	2.9	5.9	2.6	3.0	3.6
<b>Total</b>	100.0	100.0	100.0	100.0	100.0
<b>Growth rate (%)</b>					
Revenue	25.8	3.6	(31.2)	96.4	38.4
Gross profit	12.9	20.5	(26.8)	103.4	38.4
EBIT	67.8	16.7	(78.4)	569.9	36.9
Net profit	32.1	(24.2)	(88.6)	758.6	35.1
<b>P&amp;L ratios (%)</b>					
Gross Margin	32.0	37.2	39.6	41.0	41.0
Pre-tax margin	20.1	17.8	2.9	12.8	12.9
Adj. net margin	21.1	15.5	2.6	11.2	11.0
Effective tax rate	(3.7)	(8.8)	(10.0)	(12.5)	(15.0)
<b>Returns (%)</b>					
ROE	16.2	11.2	1.4	11.9	13.3
ROA	12.0	8.4	1.0	9.3	10.5

Source: Company data, CMBIGM estimates

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