

CMGE Technology (302 HK)

Strong pipeline & solid 1H21E ahead

We expect CMGE to deliver solid 1H21E results, with topline/bottom line +40%/18% YoY. Apart from eye-catching performance of *The Voyage* <航海王热血航线>, two new games (*Dynasty Warriors* <真·三国无双 霸> and *New Sword and Fairy* <仙剑奇侠传:挥剑问情>) to be launched in Aug would be further catalysts. We suggest investors to move into its 2H21E strong pipeline, backed by three highly-anticipated titles cooperating with Tencent & Toutiao. We lifted its earnings by 5%/8%/6% in FY21/22/23E, to reflect its better outlook. Looking ahead, we expect CMGE to deliver solid growth in the long run, backed by valuable IP reserve and rich pipeline. We lifted our TP to HK\$6.2 from HK\$4.4.

■ **Solid 1H21E ahead.** We forecast CMGE's rev/ adj. net profit at RMB240mn/RMB400mn in 1H21E, +40%/18% YoY. Such eye-catching topline growth was primarily boosted by existing games momentum and two new titles outperformance. Backed by strong promotion of Toutiao, *The Voyage* ranked TOP3-9 in iOS grossing rank in first month after launch, with estimated monthly grossing of RMB400mn. *Soul Land* <斗罗大陆> also performed well, ranking TOP25-50 from Apr to Jul, with contribution of ~RMB200mn rev in 1H21E (in our estimate). Coupled with solid *The New Legend Of The Condor Heroes* <新射雕> and *Thunder Empire* <雷霆霸业> (estimating rev at RMB440mn and RMB300mn), CMGE would deliver growth well above the industry average. 1H21E margin could be slightly diluted by higher S&M (in new titles promotion) and R&D (development team expansion), but full-year earnings remains intact, in our view.

■ **Eyes on two new titles in Aug.** There are over 15 new titles to be launched in 2H21E. We expect *Dynasty Warriors* (cooperating with Tencent, to be launched on 5 Aug), *New Sword and Fairy* (cooperating with Toutiao) to boost 3Q21E game grossing with high visibility. 4Q21E momentum would continue, backed by new titles of *Rakshasa Street* <镇魂街> and *The King of Fighters* <全明星激斗> (with Toutiao's guarantee annual grossing of RMB600mn). For 2022, mgmt. still prioritizes its IP-driven strategy to deliver sustainable growth.

■ **Maintain BUY.** We raised our earnings forecast by 5%/8%/6%, and lifted our DCF-based TP to HK\$6.2 (implying 12x FY21E P/E), still below industry average of 15x. Further catalysts: 1) upcoming *Dynasty Warriors* and *New Sword and Fairy* in Aug; and 2) further cooperation with Bili.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	3,036	3,820	5,233	6,103	6,970
YoY change (%)	90%	26%	37%	17%	14%
Adj. net income (RMB mn)	611	807	1,012	1,173	1,319
Adj. EPS (RMB)	0.32	0.35	0.43	0.50	0.57
YoY growth (%)	NA	7%	25%	16%	12%
Consensus EPS (RMB)	NA	NA	0.39	0.44	0.53
P/E (x)	12.7	11.8	9.4	8.1	7.2
P/S (x)	3.1	2.5	1.8	1.6	1.4
Yield (%)	1%	3%	3%	3%	3%
ROE (%)	21.9	16.2	21.1	21.8	19.8
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$6.2
(Previous TP)	HK\$4.39
Up/Downside	+25.8%
Current Price	HK\$4.93

China Internet Sector

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Stock Data

Mkt Cap (HK\$ mn)	13,646
Avg 3 mths t/o (HK\$ mn)	112.99
52w High/Low (HK\$)	5.09/ 2.59
Total Issued Shares (mn)	2,768
Source: Bloomberg	

Shareholding Structure

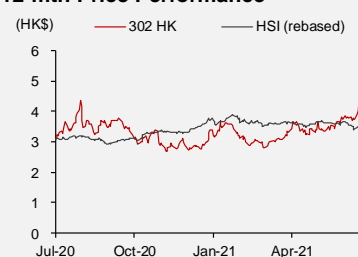
Fairview Ridge Investment	25.0%
Pegasus Network	10.6%
Hotel Zhike	7.2%
Source: Bloomberg	

Share Performance

	Absolute	Relative
1-mth	28.7%	36.1%
3-mth	48.9%	58.5%
6-mth	45.4%	56.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

1. Eyes on three key titles in pipeline – 26 Mar 2021
2. Looking into 2H20E strong pipeline – 14 Sep 2020

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Figure 1: CMBIS estimates vs consensus

RMB mn, Dec-YE	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	5,233	6,103	6,970	5,372	6,322	7,577	-2.6%	-3.5%	-8.0%
Gross Profit	1,798	2,093	2,388	1,825	2,151	2,628	-1.5%	-2.7%	-9.1%
Operating Profit	1,068	1,256	1,425	989	1,105	1,295	8.0%	13.7%	10.1%
Adj. net profit	1,012	1,173	1,319	1,011	1,154	1,398	0.1%	1.7%	-5.7%
Adj. EPS (RMB)	0.43	0.50	0.57	0.39	0.44	0.53	11.1%	13.6%	8.4%
Gross Margin	34.4%	34.3%	34.3%	34.0%	34.0%	34.7%	+0.4ppts	+0.3ppts	-0.4ppts
Operating Margin	20.4%	20.6%	20.4%	18.4%	17.5%	17.1%	+2.0ppts	+3.1ppts	+3.4ppts
Adj. net margin	19.3%	19.2%	18.9%	18.8%	18.3%	18.5%	+0.5ppts	+1.0ppts	+0.5ppts

Source: CMBIS estimates, Bloomberg

Figure 2: Earnings revision

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	5,233	6,103	6,970	5,192	5,938	6,753	0.8%	2.8%	3.2%
Gross Profit	1,798	2,093	2,388	1,784	2,038	2,316	0.8%	2.7%	3.1%
Operating Profit	1,068	1,256	1,425	1,007	1,159	1,342	6.1%	8.4%	6.2%
Adj. net profit	1,012	1,173	1,319	960	1,091	1,248	5.4%	7.5%	5.7%
EPS (RMB)	0.43	0.50	0.57	0.41	0.47	0.54	4.9%	6.4%	5.6%
Gross Margin	34.4%	34.3%	34.3%	34.4%	34.3%	34.3%	+0.4ppts	+0.3ppts	-0.4ppts
Operating Margin	20.4%	20.6%	20.4%	19.4%	19.5%	19.9%	+2.0ppts	+3.1ppts	+3.4ppts
Net Margin	19.3%	19.2%	18.9%	18.5%	18.4%	18.5%	+0.5ppts	+1.0ppts	+0.5ppts

Source: Company data, CMBIS estimates

Figure 3: Key game pipeline in 2021-2023

Expected release time	Game title
1Q21	PoRiKaiTian <破日开天>
	Legend of Sword and Fairy JY <仙剑奇侠传九野>
	MoJinXiaoWei TianZiJuan <摸金校尉之天字卷> (H5)
	Legendary Kingdom <传奇国度> (web)
	XueYin Legend <血饮传说>
2Q21	Soul Land: DouShenZaiLin <斗罗大陆: 斗神再临>
	One Piece: Bloodline <航海王热血航线>
	Thunder Empire 3 <雷霆霸业3>
	A Portrait of Jianghu: Mourning Toast <画江湖之杯莫停>
	Codename: Xueyin <代号: 血饮> (H5)
	Lord of Sand City <沙城霸主> (H5)
	Happy Real-person Mahjong – Red Packet Version <欢乐真人麻将红包版本>
3Q21	Dynasty Warriors <真·三国无双 霸>
	My Sword Training Diary <我的御剑日记>
	Princess Fantasy <幻想神姬>
	Legend of Sword and Fairy: HuiJianWenQing <仙剑奇侠传: 挥剑问情>
	Legend of Sword and Fairy 7 <仙剑奇侠传七> (PC)
	Sword and Fairy Inn <仙剑客栈2> (PC)
	Monopoly 10 <大富翁10> (Switch)
	Command Imperial City <号令皇城>
4Q21	Codename: Fairy Tale <代号: 童话>
	Rakshasa Street: Born to be King <镇魂街: 天生为王>
	New Legend of Three Kingdoms: Cao Cao <新三国志曹操传>
	Legends of Mountain and Sea <山海志异>
	Justice Bao <包青天>
	Swords Drawn: My Independent Regiment <亮剑: 我的独立团>
	New Flame Empire City <新烈焰皇城>
	SNK: All Star Fight <全明星激斗>
1Q22	New Dragon Ball <新龙珠>
	Swallowed Star: Dawn <吞噬星空: 黎明>
2Q22	Forest of Sky <天空之森>
	My Heroic Husband <赘婿>

Expected release time	Game title
3Q22	One Piece: Dream Pointer <航海王：梦想指针>
	Cultivation Chat Group 2 <修真聊天群2>
	Monopoly 11 <大富翁11> (PC)
	Cultivation Chat Group 1 <修真聊天群1>
4Q22-2023	Soul Land MMO <斗罗大陆MMO>
	Sword and Fairy Zero <仙剑零>
	New Rakshasa Street <新镇魂街>
	New Legend of Three Kingdoms: Kong Ming <新三国志孔明传>
	Dynasty Warriors 8 <真三国无双8>
	Soul Land <斗罗大陆> (CCG)
	New Soul Land <新斗罗大陆> (MMO)
	Disney All Star <迪士尼全明星>
	DreamWorks All Star <梦工厂全明星>

Source: Company data

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	3,036	3,820	5,233	6,103	6,970
Game publishing	2,553	2,978	4,382	5,094	5,786
Game development	421	730	773	924	1,090
IP licensing	62	112	78	86	95
	-	-	-	-	-
COGS	(1,953)	(2,597)	(3,435)	(4,010)	(4,582)
Gross profit	1,083	1,223	1,798	2,093	2,388
S&M	(230)	(341)	(392)	(458)	(523)
R&D	(577)	(404)	(338)	(380)	(440)
Other expenses	(21)	(103)	-	-	2
Operating profit	255	375	1,068	1,256	1,425
Other income	95	389	123	124	126
Finance costs	(15)	(35)	-	-	-
Associates	8	(13)	-	-	-
Pre-tax Income	344	717	1,190	1,380	1,552
Income Tax	(100)	(27)	(179)	(207)	(233)
MI	(5)	(11)	-	-	-
Net profit	248	701	1,012	1,173	1,319
Adj. net profit	611	807	1,012	1,173	1,319

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Pre-tax Income	344	717	1,190	1,380	1,552
D&A	56	82	8	9	-
Change in WC	(372)	(80)	506	(25)	(29)
Others	284	(96)	(197)	(227)	(255)
Operating CF	310	624	1,507	1,137	1,268
Capex	(35)	(30)	(30)	(30)	(30)
Others	(1,284)	(855)	0	0	30
Investing CF	(1,319)	(885)	(30)	(30)	-
Equity raised	1,351	459	-	-	-
Others	(724)	(391)	1,026	1,107	1,268
Financing CF	626	69	1,026	1,107	1,268
Net change in cash	626	69	1,026	1,107	1,268
Cash (beg of yr)	144	771	795	1,821	2,928
FX	1	(45)	-	-	-
Cash (end of yr)	771	795	1,821	2,928	4,195

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	2,627	3,321	3,100	3,159	3,216
Fixed asset	5	6	(0)	(2)	(5)
Goodwill	1,119	1,108	1,023	1,023	1,023
Intangible assets	155	155	159	182	204
Others	1,604	2,234	2,256	2,345	2,431
Current assets	2,581	3,010	2,522	3,746	5,132
Cash	771	795	1,821	2,928	4,195
Trade receivables	790	883	501	586	673
Other current assets	1,020	1,332	201	232	263
Current liabilities	1,284	1,464	789	881	970
Bank loans	442	451	-	-	-
Trade and other payables	687	841	632	724	813
Tax payable	117	138	138	138	138
Other current liabilities	37	34	19	19	19
Non-current liabilities	213	66	53	53	53
Deferred tax liabilities	32	53	53	53	53
Contingent consideration	163	-	-	-	-
Others	17	13	-	-	-
Total Equity	3,712	4,801	4,780	5,971	7,326

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Game publishing	84.1	77.9	83.7	83.5	83.0
Game development	13.9	19.1	14.8	15.1	15.6
IP licensing	2.0	2.9	1.5	1.4	1.4
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	90.2	25.8	37.0	16.6	14.2
Gross profit	103.4	12.9	47.0	16.4	14.1
EBIT	11.9	47.3	184.3	17.6	13.5
Net profit	82.1	32.1	25.4	16.0	12.4
P&L ratios (%)					
Gross Margin	35.7	32.0	34.4	34.3	34.3
Pre-tax margin	11.3	18.8	22.7	22.6	22.3
Adj. net margin	20.1	21.1	19.3	19.2	18.9
Effective tax rate	(29.2)	(3.7)	(15.0)	(15.0)	(15.0)
Returns (%)					
ROE	21.9	16.2	21.1	21.8	19.8
ROA	14.9	12.0	16.9	18.7	17.3

Source: Company data, CMBIS estimates

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