

# FriendTimes Inc. (6820 HK)

## More catalysts to come

FriendTimes (6820 HK, BUY)'s key title Tale of Empress (<浮生为卿歌>) performed well in May & Jun, staying stable at TOP5-10 in iOS grossing rank in early Jun. We expect more catalysts to come, including upcoming launch of ToE South Korea version and new version of Yokai Kitchen (<精灵食肆>) in Jun & Jul. We reiterate our confidence on its FY20E growth, backed by ToE upbeat, epidemic positive impact and new titles rollout. We raised its earnings by 4.5%/2.1% in FY20/21E, and lifted FT's TP from HK\$3.3 to HK\$4.0 (implying 13.5x FY20E P/E), coupled with sector valuation rebound. Valuation at 10.7x FY20E P/E is still attractive.

- **<Tale of Empress> at Top5-10 in iOS grossing rank.** ToE ranked **Top 5-10** in grossing rank in early Jun (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), with daily grossing at RMB4.0-5.0mn (vs from RMB0.6-1mn in Jan, RMB2mn in Feb, RMB2.5-3.5mn in Mar, RMB3.5-5.5mn in Apr & May). We estimate its monthly grossing up to around RMB120-130mn in May, and RMB130-150mn in Jun (vs. RMB40mn/RMB60mn/RMB80mn/>RMB100mn in Jan/Feb/Mar/Apr). We keep confident on ToE's strong momentum, and expect its upcoming launch of *ToE South Korea version* (in Jun) to bring further upside. We expect its *South Korea version* to contribute RMB10-20mn monthly grossing, and ToE to beat its previous target of annual grossing RMB1bn in FY20E.
- **More catalysts to come.** Apart from new language versions, there are four new self-developed titles in 2020 pipeline, including modern woman, casual elimination and female Xianxia games. (e.g. Fate: The Loved Journey <此生无白>). We expect the new version of Yokai Kitchen (<精灵食肆>) to be launched in 3Q20E, and modern woman game in 4Q20E. Backed by its solid high-qualified pipeline, we keep positive on its future performance and earnings upside. For conservative estimates, we still forecast insignificant contribution from new titles.
- **Maintain BUY.** Given its stronger performance of ToE, we slightly raised its earnings by 4.5%/2.1% in FY20/21E, and lifted our TP from HK\$3.3 to HK\$4.0 (implying 13.5x FY20E P/E), still largely lower than industry average of 20x. We believe COVID-19 positive impact, strong ToE, and sector valuation rebound should help it re-rate. Further catalysts: 1) new titles to be launched; 2) stronger grossing of ToE, with upcoming *South Korea version* (in Jun); and 3) new version of Yokai Kitchen (<精灵食肆>).

### 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)	18.6	15.1	10.7	9.1	7.9
P/S (x)	4.8	4.1	2.9	2.5	2.2
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\$3.3
Up/Downside	+25.0%
Current Price	HK\$3.18

### China Internet Sector

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### Stock Data

Mkt Cap (HK\$ mn)	6,957
Avg 3 mths t/o (HK\$ mn)	13.11
52w High/Low (HK\$)	3.47/0.75
Total Issued Shares (mn)	2,188

Source: Bloomberg

### Shareholding Structure

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

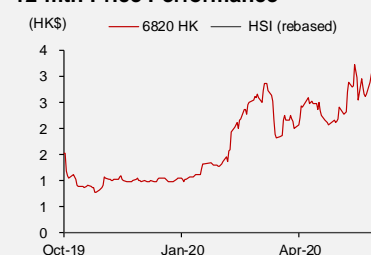
Source: Bloomberg

### Share Performance

	Absolute	Relative
1-mth	51.8%	47.0%
3-mth	27.3%	34.4%
6-mth	234.3%	257.7%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

### Related Reports

1. Moving to strong FY20E with eye-catching ToE – 30 Mar 2020
2. "Tale of Empress" strong momentum to continue – 28 Feb 2020
3. Eyes on strong <Tale of Empress> – 10 Feb 2020

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**Figure 1: Earnings revision**

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	2,385	2,764	3,176	2,276	2,703	3,126	4.8%	2.3%	1.6%
Gross Profit	1,548	1,799	2,074	1,477	1,760	2,041	4.8%	2.3%	1.6%
Operating Profit	633	744	861	605	729	849	4.5%	2.1%	1.5%
Net profit	586	688	794	561	673	782	4.5%	2.1%	1.5%
EPS (RMB)	0.27	0.31	0.36	0.25	0.31	0.36	4.5%	2.1%	1.5%
Gross Margin	65%	65%	65%	65%	65%	65%	+0.0ppts	+0.0ppts	+0.0ppts
Operating Margin	27%	27%	27%	27%	27%	27%	-0.1ppts	+0.0ppts	+0.0ppts
Net Margin	25%	25%	25%	25%	25%	25%	-0.1ppts	+0.0ppts	+0.0ppts

Source: CMBIS estimates

**Figure 2: CMBIS estimates vs consensus**

RMB mn, Dec-YE	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	2,385	2,764	3,176	2,369	2,872	3,267	0.6%	-3.8%	-2.8%
Gross Profit	1,548	1,799	2,074	1,542	1,884	2,138	0.3%	-4.5%	-3.0%
Operating Profit	633	744	861	604	758	857	4.7%	-1.8%	0.6%
Net profit	586	688	794	568	712	805	3.2%	-3.5%	-1.4%
EPS (RMB)	0.27	0.31	0.36	0.27	0.34	0.38	-1.3%	-9.0%	-5.8%
Gross Margin	65%	65%	65%	65%	66%	65%	-0.2ppts	-0.5ppts	-0.1ppts
Operating Margin	27%	27%	27%	26%	26%	26%	+1.0ppts	+0.5ppts	+0.9ppts
Net Margin	25%	25%	25%	24%	25%	25%	+0.6ppts	+0.1ppts	+0.4ppts

Source: Company data, Bloomberg, CMBIS estimates

## 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
<b>Non-current assets</b>	113	246	255	304	320
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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