

FriendTimes Inc. (6820 HK)

Eye on upcoming launch of *Twist of the Fate*

We hosted a three-day NDR for FriendTimes (FT), during which its mgmt. showed more confidence in the upcoming launch of *Twist of the Fate* (ToF, 浮生忆玲珑), diversified pipeline and mini-games potential in FY24-25E. We suggest to move beyond soft 2H23E, and eye on the launch of ToF (estimated on 2 Jan 2024). With better testing feedback and differentiated marketing, we see high visibility for ToF to contribute annual grossing of RMB1.2bn and profit of RMB200mn in FY24E, backed by innovative cooperation with popular female-oriented dramas and films, as well as offline campaigns. Its diversified genre (e.g. Code: WX, Code: PE), mini games and overseas expansion would bring further upside. To factor in higher visibility for ToF, we raised FY24/25E rev by 45%/44%, and NPM by +9.6/0.9ppts. Our DCF-based TP was lifted to HK\$2.0.

- **Eye on the launch of ToF, with differentiated marketing.** We expect *Twist of the Fate* to be launched on 2 Jan 2024, followed by overseas versions (e.g. SEA, Chinese Taiwan, South Korea), to boost FY24E rebound. ToF has launched multiple rounds of tests, and received better user feedback and paying metrics than ToF 1 (Fate of the Empress, 浮生为卿歌). Backed by the success of ToF1, we see high visibility for ToF to contribute peak monthly grossing of RMB150mn and annual net profit of RMB200mn in FY24E, with: 1) multi-channel marketing, including inviting ambassadors (famous for costume drama) for product promotion, livestreaming and NPC engagement; and 2) innovative cooperation with popular female-oriented dramas and films, as well as offline campaigns (e.g. Suzhou-style afternoon tea). ToF may see rising grossing in 1H24E, and may generate meaningful profit in 2H24E.
- **Diversified genre, mini games and overseas expansion to bring further upside.** FT will test the water for martial arts game (e.g. Code: WX) and European royalty type (Code: PE) in FY24E. Code: PE will enter into two rounds of tests in overseas market in 1H24E, and target to launch in 2H24E. Given the wide popularity of King's choice (similar to PE), we expect PE to boost overseas grossing if executed well. Code: WX will be launched in 2H24E/2025E, targeting male players with traditional wu xia style. Moreover, FT will convert multiple key titles to mini-games, unlocking grossing potential.
- **Looking beyond soft FY23E.** We suggest investors to move beyond 2H23E for the lack of new launches. We forecast 2H23E rev -34% YoY, and bottom line at -RMB49mn, with S&M scaling back of *A story of Lala*. To factor in higher visibility for ToF, we raised our topline forecast by 45%/44% in FY24/25E, with bottom line at RMB250mn in FY24E. Our TP was lifted to HK\$2.0.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	1,616	1,524	1,080	2,032	2,295
YoY change (%)	-26%	-6%	-29%	88%	13%
Adj. net income (RMB mn)	275	25	(127)	250	312
Adj. EPS (RMB)	0.13	0.01	(0.06)	0.11	0.14
YoY growth (%)	-45%	-91%	NA	NA	25%
Consensus EPS (RMB)	NA	NA	0.05	0.13	0.23
P/E (x)	9.6	105.5	NA	10.6	8.5
P/S (x)	1.8	1.9	2.7	1.4	1.3
Yield (%)	9.7%	4.8%	NA	4.6%	5.8%
ROE (%)	17%	2%	NA	14%	15%
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$2.0**
 (Previous TP **HK\$1.32**)
 Up/Downside **+48%**
 Current Price **HK\$1.35**

China Entertainment Sector

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Stock Data

Mkt Cap (HK\$ mn)	2,726
Avg 3 mths t/o (HK\$ mn)	2.54
52w High/Low (HK\$)	1.32/ 0.74
Total Issued Shares (mn)	2,181

Source: Bloomberg

Shareholding Structure

Eternal Heart Holding	43.0%
Warm Sunshine	8.7%
GIC	5.0%

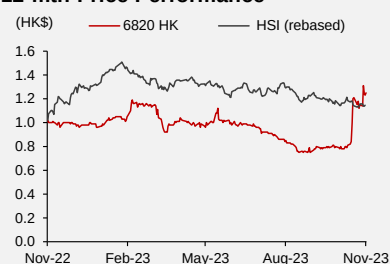
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	53.8%	58.9%
3-mth	46.4%	65.9%
6-mth	26.8%	46.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

Figure 1: 2H23E financial preview

RMB ('000), Dec-YE	1H22	2H22	1H23	2H23E
Revenue	826,057	698,334	620,342	460,132
Cost of sales	(253,312)	(226,965)	(207,728)	(148,828)
Gross profit	572,745	471,369	412,614	311,303
Sales and marketing expenses	(469,968)	(177,300)	(276,068)	(199,340)
Research and development expenses	(169,112)	(188,384)	(160,019)	(137,111)
General and administrative expenses	(34,036)	(35,583)	(24,977)	(19,322)
Other income	17,157	30,349	34,013	(8,710)
Operating (loss)/profit	(83,214)	100,451	(14,437)	(53,181)
Finance costs	(26)	(13)	(156)	(21)
Share of loss of an associate	(910)	-	-	-
Changes in fair value of equity investment measured at fair value through profit or loss	10,096	(14,748)	(1,977)	2,177
Profit before taxation	(74,054)	98,484	(16,570)	(51,025)
Income tax expense	1,092	(411)	(1,367)	4,747
Deferred tax	-	-	(63,007)	-
Profit for the year	(72,962)	98,073	(80,944)	(46,279)
Adj. profit for the year	(58,461)	83,572	(77,911)	(49,312)
Margin Analysis				
Gross margin	69%	67%	67%	68%
Operating margin	-10%	14%	-2%	-12%
Adj. net margin	-7%	12%	-13%	-11%
Growth Analysis				
Revenue	-	-	-25%	-34%
Gross profit	-	-	-28%	-34%
Operating profit	-	-	NA	NA
Net profit	-	-	NA	NA

Source: Company data, CMBIGM estimates

Figure 2: FT's financials forecasts in FY23-25E

RMB mn, Dec-YE	FY21	FY22	FY23E	FY24E	FY25E	23-25E CAGR
Revenue	1,616	1,524	1,080	2,032	2,295	46%
Cost of sales	(527)	(480)	(357)	(650)	(734)	
Gross profit	1,089	1,044	724	1,382	1,561	47%
Sales and marketing expenses	(456)	(647)	(475)	(675)	(734)	
Research and development expenses	(365)	(357)	(297)	(406)	(448)	
General and administrative expenses	(67)	(70)	(44)	(67)	(73)	
Other income	39	48	25	29	29	
Operating (loss)/profit	241	17	(68)	262	334	
Finance costs	(0)	(0)	(0)	(0)	(0)	
Share of loss of an associate through profit or loss	(3)	(1)	(2)	(2)	(2)	
Profit before taxation	234	24	(68)	266	336	
Income tax expense	42	1	3	(16)	(24)	
Profit for the year	275	25	(127)	250	312	
Non-controlling interests	-	-	-	-	-	
Net profit attributable to equity shareholders	275	25	(127)	250	312	
Margin Analysis						
Gross margin	67%	68%	67%	68%	68%	
Operating margin	15%	1%	-6%	13%	15%	
Net margin	17%	2%	-12%	12%	14%	
Growth Analysis						
Revenue	-26%	-6%	-29%	88%	13%	
Gross profit	-26%	-4%	-31%	91%	13%	
Operating profit	-56%	-93%	NA	NA	27%	
Net profit	-45%	-91%	NA	NA	25%	

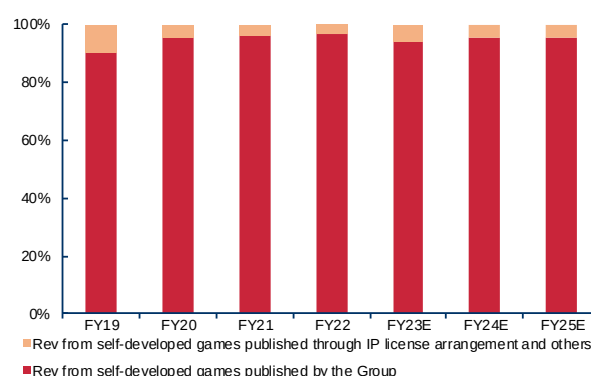
Source: Company data, CMBIGM estimates

Figure 3: FT rev estimates (2019-2025E)



Source: Company data, CMBIGM estimates

Figure 4: Revenue mix trend (2019-2025E)



Source: Company data, CMBIGM estimates

Figure 5: FriendTimes' key game pipeline in 2023 & 2024

Title	Chinese title	License	Genre	Launch date (est.)	Details
Twist of the Fate	浮生忆玲珑	Y	PRG	2 Jan 2024	A new generation of female-oriented traditional Chinese-style mobile game, which is inherited from the Fate of the Empress (浮生為卿歌) and creates a new theme adopting next-generation engine effects, artistic production techniques and innovative gameplay features, aiming to bring players a free, realistic and multifaceted gameplay experience. A role-playing strategy game set in a fictional Chinese-style wuxia world, featuring the classic martial arts as its core. The game illustrates an unrestrained and pleasant world of wuxia, creating stereoscopic and realistic martial artists, and a multi-dimensional wuxia epic. A female-oriented role-playing game set in a fictional European royal world. The game portrays the Western royal family with immersive audio-visual experiences and a multi-dimensional storytelling approach, creating a dynasty of legendary queen. Players will enter the royal world, experience the struggle for power, enjoy emotional interactions, and cast a generation of queen legends.
Code: WX	代号: 武侠	N	MMO	2024/2025	
Code: PE	代号: PE	N	Strategy	2024	

Source: Company data, CMBIGM

Maintain BUY with TP lifted to HK\$2.0

To factor in better testing feedback and higher visibility of *ToF* grossing, we raised FY24/25E topline by 44%-45% YoY, and margin by +0.7-9.6ppts. As such, we lifted our adj. NP forecast to RMB250mn/RMB312mn in FY24/25E. Meanwhile, considering S&M expenses incurred by *ToF*, we trimmed FY23E NPM by 4.8ppts.

We maintain BUY rating, and adjust DCF-based TP to HK\$2.0 (15.5x/12.4x FY24/25E P/E) from HK\$1.32. Game softness and net loss in FY23E have been well priced in. We are more positive on *ToF*'s grossing potential and profit contribution in FY24E, and diversified genre and overseas expansion might bring LT growth. Key catalysts: 1) *ToF* to be launched on 2 Jan 2024; 2) potential announcement of ambassadors of *ToF* and cooperation with popular drama; 3) overseas expansion with *ToF* multiple versions and Project PE.

Figure 6: CMBIGM estimates vs consensus

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Revenue	1,080	2,032	2,295	1,319	1,946	2,262	-18.1%	4.4%	1.5%
Gross profit	724	1,382	1,561	900	1,331	1,548	-19.5%	3.8%	0.8%
Operating profit	(68)	262	334	24	288	434	-385.0%	-8.9%	-23.0%
Adj. net profit	(127)	250	312	1	282	491	NA	-11.4%	-36.4%
Adj. EPS (RMB)	(0.06)	0.11	0.14	0.05	0.13	0.23	-216.7%	-11.8%	-36.3%
Gross margin	67.0%	68.0%	68.0%	68.2%	68.4%	68.4%	-1.2ppts	-0.4ppts	-0.4ppts
Operating margin	-6.3%	12.9%	14.6%	1.8%	14.8%	19.2%	-8.1ppts	-1.9ppts	-4.6ppts
Adj. net margin	-11.8%	12.3%	13.6%	0.1%	14.5%	21.7%	-11.9ppts	-2.2ppts	-8.1ppts

Source: CMBIGM estimates, Bloomberg

Figure 7: Earnings revision

RMB mn, Dec-YE	New			Old			Diff (%)		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Revenue	1,080	2,032	2,295	1,142	1,401	1,592	-5.4%	45.0%	44.2%
Gross profit	724	1,382	1,561	771	953	1,083	-6.1%	45.0%	44.1%
Operating profit	(68)	262	334	(18)	37	220	NA	609.4%	51.8%
Adj. net profit	(127)	250	312	(80)	38	206	NA	558.1%	51.6%
Adj. EPS (RMB)	(0.06)	0.11	0.14	(0.04)	0.02	0.09	NA	473.3%	59.1%
Gross margin	67.0%	68.0%	68.0%	67.5%	68.0%	68.0%	-0.5ppts	0.0ppts	0.0ppts
Operating margin	-6.3%	12.9%	14.6%	-1.6%	2.7%	13.8%	-4.7ppts	+10.2ppts	+0.8ppts
Adj. net margin	-11.8%	12.3%	13.6%	-7.0%	2.7%	12.9%	-4.8ppts	+9.6ppts	+0.7ppts

Source: CMBIGM estimates, Bloomberg

Figure 8: DCF valuation

DCF Valuation (RMB mn)

	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	(67)	266	336	528	580	621	658	678
Tax	3	(16)	(24)	(37)	(46)	(56)	(66)	(68)
D&A	39	36	33	32	30	29	28	27
Change in working capital	(15)	24	7	8	8	8	9	9
CAPEX	(38)	(38)	(38)	(42)	(44)	(45)	(46)	(48)
FCF	(79)	271	315	487	528	557	583	599
FCF Growth			16%	55%	8%	5%	5%	3%
PV	(79)	236	238	321	303	278	253	2,010
Terminal Value								4,725

Assumptions

WACC	14.9%
Tax rate	10.0%
Risk free rate	3.53%
Cost of debt	6.0%
Beta	1.30
Market risk return	11.4%
Cost of equity	14.9%
Long term growth	2.0%

Equity Value

PV	3,560
minus: Net debt(RMB mn)	(321)
minus: Minority interest(RMB mn)	0
Equity Value(RMB mn)	3,882
FX	0.9
Stock price (HK\$)	2.0

WACC

Terminal growth rate	~	13%	14%	15%	16%	17%
	0.5%	2.18	2.01	1.87	1.73	1.62
	1.0%	2.23	2.05	1.90	1.76	1.65
	1.5%	2.28	2.09	1.94	1.79	1.67
	2.0%	2.34	2.14	1.98	1.82	1.70
	2.5%	2.40	2.19	2.02	1.85	1.72
	3.0%	2.47	2.24	2.06	1.89	1.75
	3.5%	2.55	2.30	2.11	1.93	1.78

Source: CMBIGM estimates, Bloomberg

Figure 9: Comps table

Company	Ticker	Mkt cap (USD mn)	Currency	Price	CMBI Rating	CMBI TP	PE			PS			FY23-25 EPS CAGR
							FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	
FriendTimes	6820 HK	354	HKD	1.3	BUY	2.0	NA	10.6	8.5	2.7	1.4	1.3	NA
Domestic Game													
Tencent	700 HK	376,061	HKD	309	BUY	460	18.7	15.8	13.8	4.4	4.0	3.6	15%
NetEase	NTES US	71,951	USD	112	BUY	125	17.5	17.0	15.4	5.0	4.5	4.1	-2%
XD Inc	2400 HK	844	HKD	14	NA	NA	30.3	16.1	11.3	1.5	1.3	1.1	65%
Kingsoft	3888 HK	5,275	HKD	30	NA	NA	54.4	30.9	25.0	4.3	3.8	3.3	43%
IGG	799 HK	480	HKD	3	NA	NA	NA	6.8	5.1	0.7	0.6	0.6	NA
CMGE	302 HK	521	HKD	1	BUY	3	10.1	6.5	4.9	1.0	0.8	0.6	35%
Archosaur Games	9990 HK	242	HKD	2	NA	NA	NA	45.2	5.0	1.8	1.2	1.2	NA
Perfect World	002624 CH	3,462	CNY	13	BUY	49	22.3	16.2	13.8	3.0	2.6	2.4	28%
Sanqi Interactive	002555 CH	7,462	CNY	25	BUY	30	16.5	14.1	12.4	3.0	2.7	2.4	15%
Giant Network	002558 CH	3,524	CNY	13	NA	NA	19.4	16.6	14.7	8.1	7.1	6.3	15%
G-bits	603444 CH	2,981	CNY	301	NA	NA	16.7	13.6	11.8	4.6	3.9	3.4	19%
Kingnet Network	002517 CH	3,531	CNY	12	NA	NA	16.9	13.2	11.1	5.6	4.5	3.8	23%
Average							17.3	13.6	12.0	3.2	2.7	2.4	18%
International Game													
Activision Blizzard	ATVI US	74,289	USD	94	NA	NA	22.4	21.4	20.5	7.6	7.8	7.5	6%
Electronic Arts	EA US	35,021	USD	129	NA	NA	18.3	17.0	16.6	4.6	4.3	4.2	11%
Take-Two	TTWO US	22,820	USD	134	NA	NA	41.5	18.3	16.0	4.1	2.9	2.9	70%
ROBLOX	RBLX US	20,878	USD	34	NA	NA	NA	NA	NA	6.4	5.5	4.8	NA
Nintendo	7974 JT	55,134	JPY	6,385	NA	NA	19.7	24.2	22.8	5.2	5.4	5.0	-7%
Bandai Namco	7832 JT	14,276	JPY	3,224	NA	NA	21.6	19.7	17.8	2.0	2.0	1.8	10%
Square Enix	9684 JT	4,144	JPY	5,086	NA	NA	17.9	15.3	16.4	1.7	1.7	1.7	5%
Z Holdings	4689 JT	20,723	JPY	408	NA	NA	28.0	25.1	21.3	1.7	1.6	1.5	16%
CyberAgent	4751 JT	2,809	JPY	835	NA	NA	26.9	19.6	16.2	0.6	0.5	0.5	30%
Sony	6758 JT	110,303	JPY	13,155	NA	NA	18.2	16.2	14.9	1.4	1.3	1.3	11%
Capcom	9697 JT	9,005	JPY	5,082	NA	NA	31.2	28.1	25.5	9.3	8.3	7.8	10%
Oriental Land	4661 JT	61,663	JPY	5,100	NA	NA	78.4	64.4	56.5	15.2	13.1	12.2	17%
Nexon	3659 JT	16,344	JPY	2,873	NA	NA	21.0	20.0	18.0	5.8	5.3	5.0	8%
Average							22.5	20.4	18.7	3.7	3.9	3.7	9%
Average							21.3	18.6	15.2	3.5	3.3	3.1	14%

Source: Bloomberg, CMBIGM

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	1,616	1,524	1,080	2,032	2,295
Games	1,616	1,524	1,080	2,031	2,294
Others	0	1	1	1	1
COGS	(527)	(480)	(357)	(650)	(734)
Gross profit	1,089	1,044	724	1,382	1,561
S&M	(456)	(647)	(475)	(675)	(734)
R&D	(365)	(357)	(297)	(406)	(448)
G&A	(67)	(70)	(44)	(67)	(73)
Other income	39	48	25	29	29
Operating profit	241	17	(68)	262	334
Finance costs	(0)	(0)	(0)	(0)	(0)
Other gains, net	(7)	7	0	4	2
Pre-tax Income	234	24	(68)	266	336
Income Tax	42	1	3	(16)	(24)
MI	-	-	-	-	-
Net profit	275	25	(127)	250	312
Adj. net profit	275	25	(127)	250	312

Cash flow summary

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Pre-tax Income	234	24	(68)	266	336
D&A	23	42	39	36	33
Change in WC	(2)	106	(15)	24	7
Others	8	(17)	(4)	(28)	(35)
Operating CF	263	155	(48)	297	341
Capex	(57)	(38)	(38)	(38)	(38)
Others	(329)	(43)	10	14	14
Investing CF	(386)	(81)	(28)	(25)	(25)
Equity raised	0	0	0	0	0
Change of debts	0	0	0	0	0
Others	(217)	(225)	(0)	(0)	(0)
Financing CF	(217)	(225)	(0)	(0)	(0)
Net change in cash	(340)	(348)	(77)	273	317
Cash (beg of yr)	1,093	752	404	327	600
FX	(1)	0	0	0	0
Cash (end of yr)	752	404	327	600	916

Balance sheet

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Non-current assets	565	556	564	567	572
Fixed asset	279	266	276	279	284
Right-of-use assets	9	9	5	4	3
Intangible assets	3	4	6	7	8
Others	275	277	277	277	277
Current assets	1,241	1,057	841	1,207	1,550
Cash	752	404	327	600	916
Trade receivables	183	104	97	183	207
Other current assets	307	549	416	424	427
Current liabilities	151	106	130	239	270
Bank loans	-	-	-	-	-
Trade and other payables	117	80	85	154	174
Lease liabilities	1	1	1	1	1
Other current liabilities	33	25	44	83	94
Non-current liabilities	9	10	14	26	28
Contract liabilities	9	10	10	18	21
Lease liabilities	-	0	5	8	8
Others	-	-	-	-	-
Total Equity	1,646	1,497	1,544	1,794	2,107

Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Sales mix (%)					
Games	100.0	99.9	100.0	100.0	100.0
Others	0.0	0.1	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	(25.9)	(5.7)	(29.1)	88.0	13.0
Gross profit	(25.8)	(4.2)	(30.7)	90.8	13.0
EBIT	(55.7)	(92.8)	NA	NA	27.3
Net profit	(45.3)	(90.9)	NA	NA	24.9
P&L ratios (%)					
Gross Margin	67.4	68.5	67.0	68.0	68.0
Pre-tax margin	14.5	1.6	(6.3)	13.1	14.6
Adj. net margin	17.0	1.6	(11.8)	12.3	13.6
Effective tax rate	(17.8)	(2.8)	5.0	6.0	7.0
Returns (%)					
ROE	16.7	1.7	(8.2)	13.9	14.8
ROA	15.2	1.6	(9.1)	14.1	14.7
Adj. EPS (RMB)	0.13	0.01	(0.06)	0.11	0.14
DPS (RMB)	0.12	0.06	(0.03)	0.06	0.07
BVPS (RMB)	0.75	0.69	0.71	0.82	0.97

Source: Company data, CMBIGM estimates

Disclosures & Disclaimers

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