

FriendTimes Inc. (6820 HK)

Attractive valuation with new games to come

FriendTimes delivered in-line FY20 results, with topline/bottom line +29% /21% YoY. Paying out ratio at 43.7% surprised us. With existing games trend priced in, we suggest to look beyond FY20 earnings, and move into new titles in FY21E. There are three key titles in 2021 pipeline, including female Xianxia games. (e.g. TLJ <此生无白> to be launched on 28 Apr) and modern woman game (2H21E). We trimmed its earnings by 7%/3% in FY21/22E to reflect new games S&M efforts, but maintain our TP of HK\$4.0 (12x FY21E P/E) by rolling over to FY21E multiple. Maintain BUY with attractive valuation and multiple catalysts to come.

- **Solid FY20 with dividend surprise.** FY20 revenue grew 29.2% YoY, in line with our estimates despite 4% below consensus. Adj. net profit came in at RMB503.5mn, up 21% YoY, in line with buy-side expectation and consensus. We are impressed by its dividend at HK\$0.12 per share, with paying out ratio at 43.7% (vs. our expectation of 30%).
- **FoE grossing steps into stable stage.** After grossing peak in Jul 2020, FoE <浮生> kept stable at Top 20-30 in grossing rank in early 2021. We estimate its monthly grossing at around RMB100mn in Jan & Feb, in which mainland China/South Korea/HK, M&T version at RMB70mn/RMB16mn/RMB10mn. FoE would launch its Japanese version and English version in Apr/May. We forecast FoE & other existing games to contribute RMB1bn & RMB700mn annual grossing in FY21E, in which FoE with higher margin. The existing games grossing trend has been well anticipated by the market, more upside would come from 2021E new games, in our view.
- **Three new titles in 2021E to bring further upside.** We suggest market to eye on new titles in 2021E, including female Xianxia games. (e.g. Ftae: The Loved Journey <此生无白>, Promise of Lingyun <凌云诺>) and modern woman game (A Story of Lala's: Rising Star <杜拉拉升职记>). <TLJ> would launch on 28 Apr, and mgmt reiterated confidence on its performance based on testing data. We estimate its monthly peak grossing at RMB80mn, if executed well. We expect PoL and Lala to be launched in 2H21E, in which Lala is highly-anticipated by the market.
- **Maintain BUY.** The stock is trading at 8.5x FY21E P/E, largely below industry average of 15x. We trimmed its earnings by 7%/3% in FY21/22E, but maintain our TP of HK\$4.0 (12x FY21E P/E) by rolling over to FY21E multiple. We suggest to accumulate on dips, as more catalysts to come (e.g. <此生无白> launch, ToE Japanese & English version, and solid 1H21E result).

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	1,689	2,182	2,844	3,416	3,994
YoY change (%)	15%	29%	30%	20%	17%
Adj. net income (RMB mn)	416	504	607	766	928
Adj. EPS (RMB)	0.19	0.23	0.28	0.35	0.42
YoY growth (%)	23%	21%	21%	26%	21%
Consensus EPS (RMB)	NA	NA	0.30	0.36	NA
P/E (x)	12.5	10.3	8.5	6.8	5.6
P/S (x)	3.6	2.8	2.2	1.8	1.5
Yield (%)	0.0	4.7%	3.9%	4.1%	3.9%
ROE (%)	32%	32%	28%	26%	24%
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\$4.0
Up/Downside	+42.8%
Current Price	HK\$2.8

China Internet Sector

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Stock Data

Mkt Cap (HK\$ mn)	6,281
Avg 3 mths t/o (HK\$ mn)	10.44
52w High/Low (HK\$)	4.08/ 1.62
Total Issued Shares (mn)	2,181
Source: Bloomberg	

Shareholding Structure

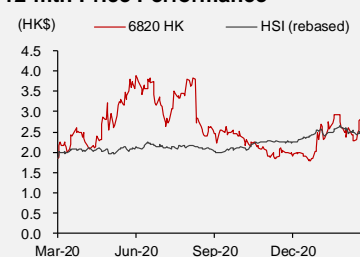
Eternal Heart Holding	43.0%
Warm Sunshine	8.7%
Ling Long Holding	8.6%
Source: Bloomberg	

Share Performance

	Absolute	Relative
1-mth	13.1%	19.5%
3-mth	50.0%	36.1%
6-mth	15.3%	-4.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

Related Reports

1. Looking beyond 1H20 earnings – 2 Sep 2020
2. Investments to enrich category – 7 Jul 2020
3. More catalysts to come – 9 Jun 2020

Figure 1: Earnings revision

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	2,844	3,416	3,994	2,673	3,145	NA	6.4%	8.6%	NA
Gross Profit	1,851	2,231	2,608	1,740	2,054	NA	6.4%	8.6%	NA
Operating Profit	654	828	1,004	708	854	NA	-7.6%	-3.0%	NA
Adj. net profit	607	766	928	654	787	NA	-7.2%	-2.6%	NA
Adj. EPS (RMB)	0.28	0.35	0.42	0.30	0.36	NA	-7.2%	-2.6%	NA
Gross Margin	65.1%	65.3%	65.3%	65.1%	65.3%	NA	0.0ppts	0.0ppts	NA
Operating Margin	23.0%	24.2%	25.1%	26.5%	27.1%	NA	-3.5ppts	-2.9ppts	NA
Adj. net margin	21.3%	22.4%	23.2%	24.5%	25.0%	NA	-3.1ppts	-2.6ppts	NA

Source: CMBIS estimates

Figure 2: CMBIS estimates vs consensus

RMB mn, Dec-YE	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	2,844	3,416	3,994	2,916	3,322	NA	-2.5%	2.8%	NA
Gross Profit	1,851	2,231	2,608	1,901	2,161	NA	-2.6%	3.2%	NA
Operating Profit	654	828	1,004	691	823	NA	-5.4%	0.7%	NA
Adj. net profit	607	766	928	655	779	NA	-7.3%	-1.6%	NA
Adj. EPS (RMB)	0.28	0.35	0.42	0.30	0.36	NA	-9.2%	-3.6%	NA
Gross Margin	65.1%	65.3%	65.3%	65.2%	65.1%	NA	-0.1ppts	+0.2ppts	NA
Operating Margin	23.0%	24.2%	25.1%	23.7%	24.8%	NA	-0.7ppts	-0.5ppts	NA
Adj. net margin	21.3%	22.4%	23.2%	22.5%	23.4%	NA	-1.1ppts	-1.0ppts	NA

Source: CMBIS estimates, Bloomberg

Figure 3: FriendTimes' FY20 review

RMB ('000), Dec-YE	2019	2020	YoY
Revenue	1,689,051	2,182,257	29%
Cost of sales	(586,974)	(713,912)	22%
Gross profit	1,102,077	1,468,345	33%
Sales and marketing expenses	(393,284)	(612,386)	56%
Research and development expenses	(223,602)	(264,692)	18%
General and administrative expenses	(62,128)	(46,326)	-25%
Other income	23,686	(1,918)	-108%
Operating (loss)/profit	446,749	543,023	22%
Finance costs	(289)	(110)	-62%
Share of loss of an associate	(9)	(1,638)	18100%
Changes in fair value of equity investment measured at fair value through profit or loss	(8,247)	(14,668)	
Profit before taxation	438,204	526,607	20%
Income tax expense	(22,677)	(23,088)	2%
Profit for the year	415,527	503,519	21%

Margin Analysis

Gross margin	65%	67%
Operating margin	26%	25%
Net margin	25%	23%

Growth Analysis

Revenue	29%
Gross profit	33%
Operating profit	22%
Net profit	21%

Source: Company data

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	1,689	2,182	2,844	3,416	3,994
Games	1,689	2,182	2,844	3,416	3,994
Others	-	-	-	-	-
COGS	(587)	(714)	(993)	(1,185)	(1,386)
Gross profit	1,102	1,468	1,851	2,231	2,608
S&M	(393)	(612)	(828)	(1,008)	(1,158)
R&D	(224)	(265)	(350)	(376)	(419)
G&A	(62)	(46)	(57)	(68)	(80)
Other income	24	(2)	37	49	54
Operating profit	447	543	654	828	1,004
Finance costs	(0)	(0)	(3)	(6)	(9)
Other gains, net	(8)	(16)	0	(0)	0
Pre-tax Income	438	527	651	822	996
Income Tax	(23)	(23)	(44)	(56)	(68)
MI	-	-	-	-	-
Net profit	416	504	607	766	928
Adj. net profit	416	504	607	766	928

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Pre-tax Income	438	527	651	822	996
D&A	13	11	12	52	53
Change in WC	(51)	(21)	(90)	(21)	(21)
Others	(59)	59	(55)	(76)	(89)
Operating CF	342	575	519	778	939
Capex	(139)	(77)	(60)	(60)	(60)
Others	(96)	(51)	14	26	30
Investing CF	(236)	(128)	(46)	(34)	(30)
Equity raised	500	-	-	-	-
Change of debts	-	-	48	48	48
Others	(181)	(222)	(3)	(6)	(9)
Financing CF	319	(222)	45	42	39
Net change in cash	425	225	518	786	948
Cash (beg of yr)	473	893	1,093	1,611	2,396
FX	(4)	(25)	-	-	-
Cash (end of yr)	893	1,093	1,611	2,396	3,345

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	246	388	447	455	462
Fixed asset	202	264	326	336	344
Right-of-use assets	9	8	6	5	4
Intangible assets	8	4	1	1	1
Others	28	113	113	113	113
Current assets	1,265	1,404	2,016	2,859	3,865
Cash	893	1,093	1,611	2,396	3,345
Trade receivables	219	181	256	307	359
Other current assets	153	130	150	155	161
Current liabilities	196	221	254	333	413
Bank loans	-	-	48	96	144
Trade and other payables	135	143	40	47	55
Lease liabilities	3	1	1	1	1
Other current liabilities	58	77	165	188	212
Non-current liabilities	9	5	26	31	36
Contract liabilities	9	5	26	31	36
Lease liabilities	-	-	-	-	-
Others	-	-	-	-	-
Total Equity	1,307	1,566	2,184	2,950	3,878

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Games	100.0	100	100.0	100.0	100.0
Others	0.0	0.0	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	15.3	29.2	30.3	20.1	16.9
Gross profit	20.0	33.2	26.1	20.5	16.9
EBIT	23.0	21.5	20.5	26.5	21.3
Net profit	23.4	21.2	20.6	26.2	21.1
P&L ratios (%)					
Gross Margin	65.2	67.3	65.1	65.3	65.3
Pre-tax margin	25.9	24.1	22.9	24.1	24.9
Adj. net margin	24.6	23.1	21.3	22.4	23.2
Effective tax rate	5.2	4.4	6.8	6.8	6.8
Returns (%)					
ROE	31.8	32.1	27.8	26.0	23.9
ROA	27.5	28.1	24.6	23.1	21.4
Adj. EPS (RMB)	0.19	0.23	0.28	0.35	0.42
DPS (RMB)	-	0.12	0.10	0.10	0.10
BVPS (RMB)	0.59	0.71	0.99	1.34	1.76

Source: Company data, CMBIS estimates

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