

Hong Kong
ADD (no change)

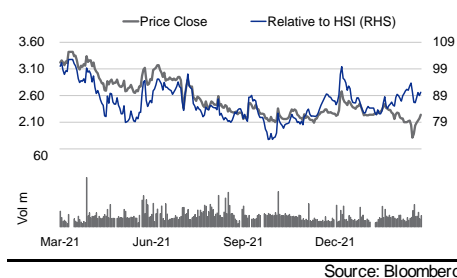
Consensus ratings*: Buy 4 Hold 0 Sell 0

| | |
|-------------------------|------------|
| Current price: | HK\$2.24 |
| Target price: | HK\$3.10 |
| Previous target: | HK\$4.50 |
| Up/downside: | 38.5% |
| CGI / Consensus: | na |
| Reuters: | 6988.HK |
| Bloomberg: | 6988 HK |
| Market cap: | US\$625.6m |
| | HK\$4,895m |
| Average daily turnover: | US\$2.29m |
| | HK\$17.90m |
| Current shares o/s: | 2,185m |
| Free float: | 21.8% |

*Source: Bloomberg

Key changes in this note

- Net profit forecast for 2022F and 2023F increased by 46.3% & 54%, respectively.



| Price performance | 1M | 3M | 12M |
|-------------------|------|------|-------|
| Absolute (%) | -0.9 | -1.3 | -32.3 |
| Relative (%) | 5.5 | 3.2 | -10 |

Major shareholders

| | % held |
|------------------------|--------|
| Mr Zhu Zinan | 34.2 |
| Shenzhen Nanhai Growth | 5.7 |
| NT Balance Cap Ltd | 5.4 |

Analyst
Mark Po

T (852) 3698 6318

E markpo@chinastock.com.hk

Joy Spreader Interactive Technology

Ready to grow after a major hiccup

- Joy Spreader's 2021 results were negatively impacted by policy, which was the reason for the lower-than-expected results
- The Company's growth in 2022–2024 will be driven by expanding its interactive entertainment customer base, overseas e-commerce, and margin recovery.
- Joy Spreader's business can be divided into two main segments: interactive entertainment and digital products marketing and e-commerce-related business. We still expect Joy Spreader to deliver good growth despite the challenging market environment.
- Gross profit margin improvement and improving cash flow are the two major medium-term rerating catalysts.
- We reiterate our ADD rating and lower our target price of HK\$3.10 (based on 23x 2022 P/E, lower than average of 26x since listing). The downward revision in the target price is due to: a) lower net profit forecasts and b) a reduction in target P/E from 30x to 23x.

New drivers in a challenging industry environment

In 2021, Joy Spreader carefully assessed the industry environment and made a forward-looking layout regarding the long-term development of its business. It has started to realize the results in overseas short videos, e-commerce, film and television cultural and entertainment marketing, and other areas. In 4Q21, the Company began business trials for its overseas sales of short videos and e-commerce goods, and quickly expanded its business to a number of countries in Southeast Asia through a famous overseas short-video platform. Joy Spreader entered into a comprehensive strategic partnership relationship with Poly Film Investment Co., Ltd. (Poly Film), an enterprise managed by the central government in the cultural sector. They will work together to steadily develop new business around the digital upgrade of the film and television cultural and entertainment industry. We expect the new drivers to offset the near-term weakness in other segments, such as online games. The Company's growth in 2022–2024 will be driven by expanding its customer base of interactive entertainment and overseas e-commerce, and margin recovery. We still expect Joy Spreader to deliver good growth despite the challenging market environment.

2021 results highlights

Joy Spreader's 2021 revenue grew to HK\$1,395.9m, up 51.1% yoy from HK\$923.9m in 2020. The Company's strong top-line increase was attributable mainly to the rapid growth of the domestic e-commerce product marketing business and the successful launch of the overseas sales of its e-commerce goods business in 4Q21. Joy Spreader achieved a gross profit of HK\$451.9m in 2021, representing an increase of 49.8% from HK\$301.56m in 2020. Joy Spreader achieved a gross profit margin of 32.37% in 2021, down slightly from 32.64% in 2020, as a result of: a) stable marketing gross profit; and b) the dilution impact of launching the business of overseas sales of short videos and e-commerce goods in 4Q21. The Company reported a net profit of HK\$244.6m in 2021, up 76.4% yoy from HK\$128.7m in 2020. Regarding sub-segment performance in 2021: a) revenue from its interactive entertainment and other digital products marketing business was HK\$959.7m, up by 19.4% yoy; and b) revenue from its e-commerce products marketing business was HK\$288.4m (HK\$1,189.2m GMV) in the China market and HK\$147.9m from sales of products in overseas markets. Joy Spreader's 2021 results were negatively impacted by policy, which is the reason for the lower-than-expected results.

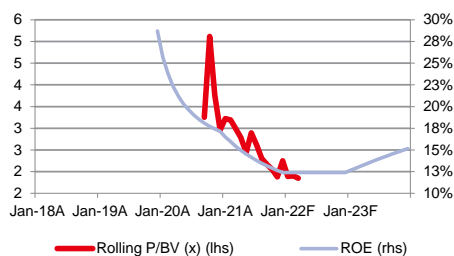
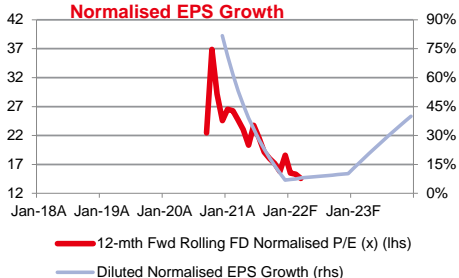
We cut our net profit forecast for 2022F and 2023F by 46.3% & 54.0%, respectively, as we factored in higher costs. We maintain our ADD rating with a lower target price of HK\$3.1.

Financial Summary

| | Dec-20A | Dec-21A | Dec-22F | Dec-23F | Dec-24F |
|--------------------------------------|---------|---------|---------|---------|---------|
| Revenue (HK\$m) | 924 | 1,396 | 2,354 | 3,008 | 3,707 |
| Operating EBITDA (HK\$m) | 229.5 | 266.8 | 321.8 | 453.7 | 595.8 |
| Net Profit (HK\$m) | 138.7 | 244.6 | 294.7 | 416.7 | 548.3 |
| Normalised EPS (HK\$) | 0.12 | 0.13 | 0.14 | 0.20 | 0.26 |
| Normalised EPS Growth | 81.8% | 6.9% | 10.2% | 39.9% | 30.8% |
| FD Normalised P/E (x) | 18.86 | 17.65 | 16.02 | 11.45 | 8.75 |
| DPS (HK\$) | - | - | - | - | - |
| Dividend Yield | 0% | 0% | 0% | 0% | 0% |
| EV/EBITDA (x) | 13.10 | 16.03 | 14.73 | 10.20 | 7.57 |
| P/FCFE (x) | NA | NA | NA | 43.71 | 40.55 |
| Net Gearing | (56.1%) | (26.7%) | (5.9%) | (8.8%) | (10.8%) |
| P/BV (x) | 2.27 | 2.11 | 1.87 | 1.62 | 1.37 |
| ROE | 17.1% | 12.4% | 12.4% | 15.2% | 16.9% |
| % Change In Normalised EPS Estimates | | | (46.3%) | (54.0%) | |
| Normalised EPS/consensus EPS (x) | | | 0.52 | 0.51 | |

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS

P/BV vs ROE

12-mth Fwd FD Normalised P/E vs FD Normalised EPS Growth


Profit & Loss

| (HK\$m) | Dec-20A | Dec-21A | Dec-22F | Dec-23F | Dec-24F |
|--|--------------|----------------|----------------|----------------|----------------|
| Total Net Revenues | 923.9 | 1,395.9 | 2,354.4 | 3,007.6 | 3,707.4 |
| Gross Profit | 301.6 | 451.9 | 576.2 | 748.5 | 940.8 |
| Operating EBITDA | 229.5 | 266.8 | 321.8 | 453.7 | 595.8 |
| Depreciation And Amortisation | (2.2) | (3.5) | (4.9) | (6.2) | (7.5) |
| Operating EBIT | 227.3 | 263.3 | 317.0 | 447.5 | 588.2 |
| Financial Income/(Expense) | 0.0 | (0.5) | (1.2) | (1.5) | (1.8) |
| Pretax Income/(Loss) from Assoc. | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 |
| Non-Operating Income/(Expense) | (9.1) | 11.6 | 2.1 | (1.0) | (4.3) |
| Profit Before Tax (pre-EI) | 218.3 | 274.5 | 318.0 | 445.1 | 582.2 |
| Exceptional Items | (84.9) | (32.8) | (10.9) | (10.9) | (10.9) |
| Pre-tax Profit | 133.4 | 241.7 | 307.1 | 434.2 | 571.3 |
| Taxation | 5.3 | 2.9 | (12.4) | (17.5) | (23.1) |
| Exceptional Income - post-tax | | | | | |
| Profit After Tax | 138.7 | 244.6 | 294.7 | 416.7 | 548.3 |
| Minority Interests | | | | | |
| Preferred Dividends | | | | | |
| FX Gain/(Loss) - post tax | | | | | |
| Other Adjustments - post-tax | | | | | |
| Preference Dividends (Australia) | | | | | |
| Net Profit | 138.7 | 244.6 | 294.7 | 416.7 | 548.3 |
| Normalised Net Profit | 223.6 | 277.4 | 305.6 | 427.6 | 559.2 |
| Fully Diluted Normalised Profit | 223.6 | 277.4 | 305.6 | 427.6 | 559.2 |

Cash Flow

| (HK\$m) | Dec-20A | Dec-21A | Dec-22F | Dec-23F | Dec-24F |
|----------------------------------|--------------|--------------|--------------|-------------|-------------|
| EBITDA | 230 | 267 | 322 | 454 | 596 |
| Cash Flow from Inv. & Assoc. | | | | | |
| Change In Working Capital | (627) | (644) | (736) | (281) | (404) |
| (Incr)/Decr in Total Provisions | | | | | |
| Other Non-Cash (Income)/Expense | 2 | 4 | 5 | 6 | 8 |
| Other Operating Cashflow | (15) | 32 | 24 | (13) | (20) |
| Net Interest (Paid)/Received | (1) | (1) | (1) | (2) | (2) |
| Tax Paid | | | | | |
| Cashflow From Operations | (411) | (342) | (386) | 164 | 177 |
| Capex | (21) | (21) | (21) | (21) | (21) |
| Disposals Of FAs/subsidiaries | 0 | 0 | 0 | 0 | 0 |
| Acq. Of Subsidiaries/investments | | | | | |
| Other Investing Cashflow | 1 | (224) | (68) | (39) | (43) |
| Cash Flow From Investing | (21) | (245) | (90) | (60) | (65) |
| Debt Raised/(repaid) | 8 | (4) | 12 | 8 | 9 |
| Proceeds From Issue Of Shares | 1,499 | 0 | 0 | 0 | 0 |
| Shares Repurchased | | | | | |
| Dividends Paid | 0 | 0 | 0 | 0 | 0 |
| Preferred Dividends | | | | | |
| Other Financing Cashflow | (12) | (1) | (1) | (1) | (1) |
| Cash Flow From Financing | 1,495 | (4) | 11 | 7 | 8 |
| Total Cash Generated | 1,064 | (592) | (465) | 111 | 120 |
| Free Cashflow To Equity | (423) | (591) | (464) | 112 | 121 |
| Free Cashflow To Firm | (430) | (586) | (475) | 106 | 114 |

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS... cont'd
Balance Sheet

| (HK\$m) | Dec-20A | Dec-21A | Dec-22F | Dec-23F | Dec-24F |
|--------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Total Cash And Equivalents | 1,210 | 619 | 154 | 265 | 385 |
| Total Debtors | 943 | 1,638 | 2,466 | 2,808 | 3,277 |
| Inventories | 0 | 0 | 0 | 0 | 0 |
| Total Other Current Assets | 37 | 48 | 53 | 60 | 67 |
| Total Current Assets | 2,191 | 2,305 | 2,673 | 3,133 | 3,729 |
| Fixed Assets | 19 | 32 | 43 | 53 | 61 |
| Total Investments | 0 | 0 | 0 | 0 | 0 |
| Intangible Assets | 0 | 0 | 0 | 0 | 0 |
| Total Other Non-Current Assets | 70 | 124 | 135 | 148 | 162 |
| Total Non-current Assets | 90 | 156 | 178 | 201 | 223 |
| Short-term Debt | 0 | 0 | 0 | 0 | 0 |
| Current Portion of Long-Term Debt | | | | | |
| Total Creditors | 99 | 123 | 207 | 265 | 326 |
| Other Current Liabilities | 7 | 15 | 25 | 32 | 40 |
| Total Current Liabilities | 106 | 138 | 233 | 297 | 366 |
| Total Long-term Debt | 0 | 0 | 0 | 0 | 0 |
| Hybrid Debt - Debt Component | | | | | |
| Total Other Non-Current Liabilities | 0 | 0 | 0 | 0 | 0 |
| Total Non-current Liabilities | 0 | 0 | 0 | 0 | 0 |
| Total Provisions | 15 | 4 | 6 | 7 | 9 |
| Total Liabilities | 122 | 142 | 238 | 304 | 375 |
| Shareholders' Equity | 2,159 | 2,318 | 2,613 | 3,030 | 3,578 |
| Minority Interests | 0 | 0 | 0 | 0 | 0 |
| Total Equity | 2,159 | 2,318 | 2,613 | 3,030 | 3,578 |

Key Ratios

| | Dec-20A | Dec-21A | Dec-22F | Dec-23F | Dec-24F |
|---------------------------|---------|---------|---------|---------|---------|
| Revenue Growth | 71.7% | 51.1% | 68.7% | 27.7% | 23.3% |
| Operating EBITDA Growth | 118% | 16% | 21% | 41% | 31% |
| Operating EBITDA Margin | 24.8% | 19.1% | 13.7% | 15.1% | 16.1% |
| Net Cash Per Share (HK\$) | 0.55 | 0.28 | 0.07 | 0.12 | 0.18 |
| BVPS (HK\$) | 0.99 | 1.06 | 1.20 | 1.39 | 1.64 |
| Gross Interest Cover | 237.3 | 262.0 | 240.3 | 265.5 | 283.2 |
| Effective Tax Rate | 0.00% | 0.00% | 4.03% | 4.03% | 4.03% |
| Net Dividend Payout Ratio | NA | NA | NA | NA | NA |
| Accounts Receivables Days | 243.5 | 337.5 | 318.1 | 320.0 | 300.4 |
| Inventory Days | - | - | - | - | - |
| Accounts Payables Days | 42.89 | 42.92 | 33.90 | 38.15 | 39.12 |
| ROIC (%) | 76.0% | 26.2% | 17.9% | 17.4% | 20.4% |
| ROCE (%) | 17.6% | 12.4% | 13.4% | 16.4% | 18.3% |
| Return On Average Assets | 16.0% | 11.7% | 11.5% | 13.9% | 15.4% |

Key Drivers

| | Dec-20A | Dec-21A | Dec-22F | Dec-23F | Dec-24F |
|--------------------------------|---------|---------|---------|---------|---------|
| Number of clicks (m) | 499.1 | 496.7 | 596.1 | 655.7 | 655.7 |
| Average price per click (HK\$) | 1.6 | 1.9 | 2.0 | 2.2 | 2.5 |
| GMV (HKD m) | 593.6 | 1,189.2 | 2,136.8 | 2,679.1 | 3,391.5 |

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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| | | | | | |
|---------------------|-----------|-----------|---------|----------|------------------|
| Score Range: | 90 - 100 | 80 – 89 | 70 - 79 | Below 70 | No Survey Result |
| Description: | Excellent | Very Good | Good | N/A | N/A |

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| Distribution of stock ratings and investment banking clients for quarter ended on 31 Dec 2021 | | |
|---|-------------------------|--------------------------------|
| 619 companies under coverage for quarter ended on 31 Dec 2021 | | |
| | Rating Distribution (%) | Investment Banking clients (%) |
| Add | 71.1% | 1.5% |
| Hold | 21.8% | 0.0% |
| Reduce | 7.1% | 0.0% |

Spitzer Chart for stock being researched (2 year data)**Joy Spreader Interactive Technology (6988 HK)**

RECOMMENDATION FRAMEWORK

Stock Ratings Definition:

| | |
|--------|---|
| Add | The stock's total return is expected to reach 15% or higher over the next 12 months. |
| Hold | The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months. |
| Reduce | The stock's total return is expected to fall below negative 10% over the next 12 months. |

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings Definition:

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|-------------|--|
| Overweight | An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation. |
| Neutral | A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation. |
| Underweight | An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation. |

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| | |
|-------------|--|
| Overweight | An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark. |
| Neutral | A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark. |
| Underweight | An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark. |

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