

# CMGE Technology Group Ltd.

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DBS Group Research . Equity

4 Apr 2022

## BUY

Last Traded Price (1 Apr 2022): HK\$2.31 (HSI: 22,040)

Price Target 12-mth: HK\$4.20 (82% upside) (Prev HK\$6.00)

### Analyst

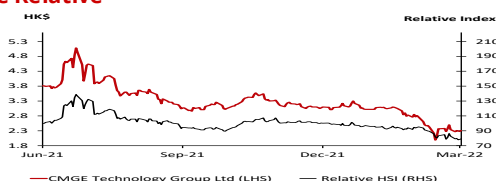
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### What's New

- Adjusted net profit in FY21 decreased by 22%, below the market expectation of c.10% increase
- Revenue increased by 3% only, due to delays in new game launches caused by suspension of game license approval
- Revised down FY22F and FY23F adjusted earnings by 26% and 10% respectively to reflect higher marketing and R&D expenses
- Maintain BUY with lower TP of HK\$ 4.20 based on 9x P/E

### Price Relative



### Forecasts and Valuation

FY Mar (RMBm)	2020A	2021A	2022F	2023F
Turnover	3,820	3,957	5,522	6,861
EBITDA	853	828	1,398	1,718
Pre-tax Profit	717	651	993	1,313
Net Profit	701	612	904	1,195
Net Pft (Pre Ex)(core profit)	807	630	921	1,213
Net Profit Gth (Pre-ex) (%)	182.4	(12.8)	47.8	32.2
EPS (RMB)	0.30	0.26	0.39	0.51
EPS (HK\$)	0.37	0.32	0.47	0.63
Core EPS (RMB)	0.30	0.26	0.39	0.51
Core EPS (HK\$)	0.37	0.32	0.47	0.63
EPS Gth (%)	127.6	(12.8)	47.8	32.2
Diluted EPS (HK\$)	0.37	0.32	0.47	0.63
DPS (HK\$)	0.04	0.00	0.00	0.00
BV Per Share (HK\$)	2.47	3.04	3.52	4.15
PE (X)	6.3	7.2	4.9	3.7
Core PE (X)	6.3	7.2	4.9	3.7
P/Cash Flow (X)	7.1	12.6	4.7	3.8
P/Free CF (X)	8.7	19.2	5.4	4.2
EV/EBITDA (X)	4.4	4.8	2.3	1.4
Net Div Yield (%)	1.7	0.0	0.0	0.0
P/Book Value (X)	0.9	0.8	0.7	0.6
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	16.9	11.7	14.5	16.4
Core Earnings Rev (%)			(26)	(10)
Consensus EPS (RMB)			0.44	0.51
Other Broker Recs:		B:10	S:0	H:0

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

## Superior overseas growth riding on rich game pipeline

### Investment Thesis

**Sustainable revenue growth backed by rich game pipeline.** CMGE is a leading Intellectual Property ("IP") game publisher and developer in China with 110+ IPs. We believe CMGE's revenue could grow at a 22% CAGR in FY20-FY23F, supported by 20+ key titles per year being launched in the coming years and accelerated overseas expansion.

**Rapid growth of overseas expansion.** Leveraging the success of Hitman Reborn! (家庭教師) and Soul Land: God of Battle Arise (斗罗大陆-神神再臨), the company will continue to expand its overseas game into the Asian market. We expect revenue from overseas markets will make up c.32% of CMGE's total revenue in FY22F, from 12% in FY21.

**Focus on self-developed games offering margin upside.** CMGE's game development capabilities are backed by three wholly owned game studios. We expect game development to account for 32% of total revenue in FY22F, from 24% in FY21, and overall gross margin to increase from 32% in FY20, to c.38% in FY22F, mainly driven by the higher margin game development segment and overseas game publishing.

### Valuation:

We derive our TP at HK\$4.20 based on 9x FY22F P/E, largely in line with its historical range.

### Where we differ:

**More positive on overseas expansion of key titles.** We believe CMGE's rich game pipelines and the launch of 20+ key titles per year will accelerate the company's overseas expansion and bring sustainable revenue growth.

### Key Risks to Our View:

(1) Unexpected regulatory changes in gaming industry, (2) failure in obtaining new game title approvals, and (3) weak performance of overseas expansion.

### At A Glance

Issued Capital (m shrs)	2,768
Mkt Cap (HK\$m/US\$m)	6,394 / 816
Major Shareholders (%)	
Changpei Investment Centre, L.P.	25.0
Shanghai Pegasus Technology Dev Limited	10.6
Bilibili Inc	7.2
Xiao (Jian)	5.8
Free Float (%)	51.4
3m Avg. Daily Val. (US\$m)	3.25
GLCS Industry: Communication Services / Media & Entertainment	



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**CMGE Technology Group Ltd.**
**WHAT'S NEW**
**FY21 earnings below market expectations, overseas expansion to continue**
**FY21 results highlights**

- Revenue in FY21 increased by 3% y-o-y to Rmb3,857m, below market expectations, mainly due to delays in launching new games which was caused by the suspension of the game license approval
- Revenue generated from overseas business increased from Rmb6.2m to Rmb458.5m, representing 11.6% of total revenue in 2021 (vs. 0.2% in 2020)
- Segment wise, game publishing revenue decreased by 5% y-o-y to Rmb2,820m, game development revenue increased by 24% to Rmb905m, and IP licensing revenue increased by 107% to Rmb232m
- Adjusted net profit decreased by 22% to Rmb630m, below the market expectation of c.10% increase
- The disappointment in earnings was mainly due to the delay in launching new games which was caused by the suspension of game license approval and higher marketing expenses
- Gross margin increased from 32% to 37.2% in FY21, mainly driven by high-margin IP licensing and the overseas game publishing business

**Our View**

- The company expects the overseas game publishing business to further accelerate in 2022, with eight more key titles to be launched in overseas markets this year
- Management guided 30% of revenue will come from the overseas business in 2022 and set a target of 50% in next few years.
- Despite the game license issues disruption, CMGE had successfully launched c.20 games in 2021, showing its capabilities to deliver resilient performance amid uncertainties. Looking forward, CMGE has obtained Banhao for several heavyweight games that scheduled to launch in 2022, which support decent domestic revenue growth this year. We remain confident about CMGE's

growth in the longer run, supported by its strong game pipelines and accelerated overseas expansion.

- We revised down FY22 revenue forecast by 5% to reflect the delay of games launch due to game license issues and raised FY23F revenue by 12%, considering accelerated overseas expansion. We now project FY22F and FY23F revenue to increase by 40% and 23% to Rmb5,522m and Rmb6,861m, respectively, mainly driven by rapid growth of the overseas business.
- Factoring in higher marketing and R&D expenses to support overseas expansion, we have revised down our adjusted net earnings by 26% and 10% for FY22F and FY23F. We now project FY22F and FY23F adjusted earnings to increase by 46% and 32% to Rmb922m and Rmb1,213m, respectively.
- We maintain our BUY call on CMGE for its sustainable growth backed by a strong game portfolio and solid game development capabilities amid macro uncertainty. Our TP of HK\$4.20 is based on an 9x FY22F P/E, largely in line with its historical range.

**Company Background**

Founded in 2011 and listed in 2019, CMGE Technology (CMGE) is a leading IP-based game operator and publisher in China. It has a large publishing network including 400 channel partners and its own publishing platform (Vclub). Among all Chinese independent mobile game publishers, CMGE has the largest IP reserves with 31 licensed IPs and 68 proprietary IPs. In terms of pipeline, CMGE has 73 active games currently and more than 30 games identified for potential launch, implying strong revenue potential in the coming years.

**CMGE Technology Group Ltd.**
**Interim Income Statement (RMBm)**

FY Mar	2H2020	1H2021	2H2021	% chgy-o-y	% chgh-o-h
Revenue	2,106	2,180	1,776	(15.7)	(18.5)
Cost of Goods Sold	(1,414)	(1,341)	(1,143)	(19.2)	(14.8)
<b>Gross Profit</b>	<b>692</b>	<b>840</b>	<b>634</b>	<b>(8.4)</b>	<b>(24.5)</b>
Other Oper. (Exp)/Inc	(244)	(403)	(388)	59.1	(3.8)
<b>Operating Profit</b>	<b>448</b>	<b>436</b>	<b>246</b>	<b>(45.1)</b>	<b>(43.6)</b>
Other Non Opg (Exp)/Inc	0	0	(4)	nm	137,500.0
Associates & JV Inc	(18)	(2)	0	99.1	(93.0)
Net Interest (Exp)/Inc	(15)	(11)	(13)	10.7	(15.5)
Exceptional Gain/(Loss)	0	0	0	nm	nm
<b>Pre-tax Profit</b>	<b>415</b>	<b>423</b>	<b>228</b>	<b>(45.0)</b>	<b>(45.9)</b>
Tax	(1)	(44)	(13)	962.9	(71.2)
Minority Interest	(1)	15	3	nm	(83.3)
<b>Net Profit</b>	<b>414</b>	<b>394</b>	<b>218</b>	<b>(47.2)</b>	<b>(44.5)</b>
Net profit bef Except.	414	394	218	(47.2)	(44.5)
EBITDA	487	483	345	(29.2)	(28.7)
<b>Margins (%)</b>					
Gross Margins	32.8	38.5	35.7		
Opg Profit Margins	21.3	20.0	13.8		
Net Profit Margins	19.6	18.1	12.3		

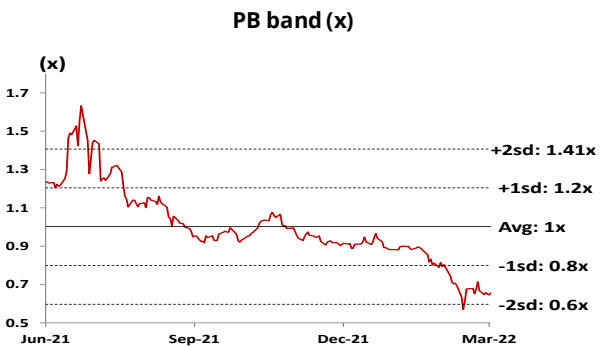
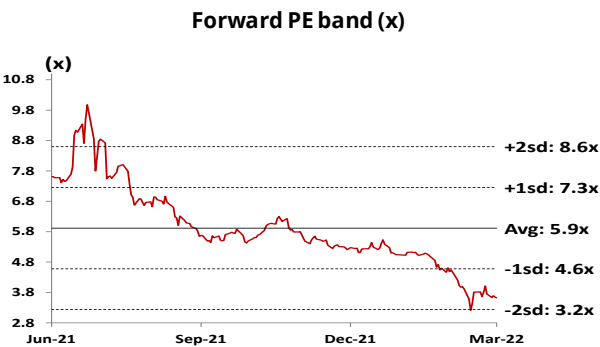
Source: Company, DBS HK

**Income Statement (RMB m)**

FY Mar	2020A	2021A	% chgy-o-y
Revenue	3,820	3,957	3.6
Cost of Goods Sold	(2,597)	(2,483)	(4.4)
<b>Gross Profit</b>	<b>1,223</b>	<b>1,473</b>	<b>20.5</b>
Other Opng (Exp)/Inc	(459)	(791)	72.6
<b>Operating Profit</b>	<b>765</b>	<b>682</b>	<b>(10.8)</b>
Other Non Opg (Exp)/Inc	0	(4)	nm
Associates & JV Inc	(13)	(2)	80.4
Net Interest (Exp)/Inc	(35)	(24)	31.0
Exceptional Gain/(Loss)	0	0	nm
<b>Pre-tax Profit</b>	<b>717</b>	<b>651</b>	<b>(9.2)</b>
Tax	(27)	(57)	114.9
Minority Interest	11	18	60.3
<b>Net Profit</b>	<b>701</b>	<b>612</b>	<b>(12.8)</b>
Net Profit before Except.	701	612	(12.8)
EBITDA	853	828	(3.0)
<b>Margins &amp; Ratio</b>			
Gross Margins (%)	32.0	37.2	
Opg Profit Margin (%)	20.0	17.2	
Net Profit Margin (%)	18.4	15.5	

Source: Company, DBS HK

Historical PE and PB band



Source: Thomson Reuters, DBS HK

**CMGE Technology Group Ltd.**
**Key Assumptions**

FY Mar	2019A	2020A	2021A	2022F	2023F
Game publishing gross margin	0.3	0.3	0.3	0.3	0.3
Game development gross margin	0.4	0.4	0.4	0.4	0.4
IP licensing gross margin	0.9	0.9	0.9	0.9	0.9

Source: Company, DBS HK

**Segmental Breakdown (RMB m)**

FY Mar	2019A	2020A	2021A	2022F	2023F
<b>Revenues (RMB m)</b>					
Game publishing	2,553	2,978	2,820	3,555	3,917
Game development	421	730	905	1,767	2,744
IP licensing	62	112	232	200	200
<b>Total</b>	<b>3,036</b>	<b>3,820</b>	<b>3,957</b>	<b>5,522</b>	<b>6,861</b>

Source: Company, DBS HK

**Income Statement (RMB m)**

FY Mar	2019A	2020A	2021A	2022F	2023F
Revenue	3,036	3,820	3,957	5,522	6,861
Cost of Goods Sold	(1,953)	(2,597)	(2,483)	(3,445)	(4,169)
<b>Gross Profit</b>	<b>1,083</b>	<b>1,223</b>	<b>1,473</b>	<b>2,078</b>	<b>2,692</b>
Other Opng (Exp)/Inc	(733)	(459)	(791)	(1,057)	(1,352)
<b>Operating Profit</b>	<b>350</b>	<b>765</b>	<b>682</b>	<b>1,020</b>	<b>1,340</b>
Other Non Opng (Exp)/Inc	(2)	0	(4)	0	0
Associates & JV Inc	11	(13)	(2)	(2)	(2)
Net Interest (Exp)/Inc	(15)	(35)	(24)	(25)	(25)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>344</b>	<b>717</b>	<b>651</b>	<b>993</b>	<b>1,313</b>
Tax	(100)	(27)	(57)	(89)	(118)
Minority Interest	5	11	18	0	0
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>248</b>	<b>701</b>	<b>612</b>	<b>904</b>	<b>1,195</b>
Net Profit before Except.	248	701	612	904	1,195
EBITDA	428	853	828	1,398	1,718
<b>Growth</b>					
Revenue Gth (%)	90.2	25.8	3.6	39.6	24.2
EBITDA Gth (%)	(98.7)	99.2	(3.0)	68.9	22.8
Opg Profit Gth (%)	(0.6)	118.3	(10.8)	49.6	31.3
Net Profit Gth (%)	(22.6)	182.4	(12.8)	47.8	32.2
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	35.7	32.0	37.2	37.6	39.2
Opg Profit Margin (%)	11.5	20.0	17.2	18.5	19.5
Net Profit Margin (%)	8.2	18.4	15.5	16.4	17.4
ROAE (%)	9.3	16.9	11.7	14.5	16.4
ROA (%)	6.0	12.2	8.6	10.8	12.6
ROCE (%)	6.7	14.3	9.9	12.5	14.2
Div Payout Ratio (%)	0.0	10.8	0.0	0.0	0.0
Net Interest Cover (x)	23.2	21.7	28.1	40.8	53.6

Source: Company, DBS HK

**CMGE Technology Group Ltd.**
**Interim Income Statement (RMB m)**

FY Mar	2H2019	1H2020	2H2020	1H2021	2H2021
Revenue	1,507	1,714	2,106	2,180	1,776
Cost of Goods Sold	(952)	(1,183)	(1,414)	(1,341)	(1,143)
<b>Gross Profit</b>	<b>555</b>	<b>531</b>	<b>692</b>	<b>840</b>	<b>634</b>
Other Oper. (Exp)/Inc	(507)	(215)	(244)	(403)	(388)
<b>Operating Profit</b>	<b>48</b>	<b>317</b>	<b>448</b>	<b>436</b>	<b>246</b>
Other Non Opg (Exp)/Inc	(1)	0	0	0	(4)
Associates & JV Inc	13	6	(18)	(2)	0
Net Interest (Exp)/Inc	(10)	(21)	(15)	(11)	(13)
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>51</b>	<b>301</b>	<b>415</b>	<b>423</b>	<b>228</b>
Tax	(57)	(25)	(1)	(44)	(13)
Minority Interest	(5)	12	(1)	15	3
<b>Net Profit</b>	<b>(12)</b>	<b>288</b>	<b>414</b>	<b>394</b>	<b>218</b>
Net profit bef Except.	(12)	288	414	394	218
<b>Growth</b>					
Revenue Gth (%)	N/A	12.1	39.8	27.2	(15.7)
Opg Profit Gth (%)	N/A	4.6	842.3	37.7	(45.1)
Net Profit Gth (%)	N/A	10.5	N/A	36.8	(47.2)

**Margins**

Gross Margins (%)	32.8	38.5	32.8	38.5	35.7
Opg Profit Margins (%)	21.3	20.0	21.3	20.0	13.8
Net Profit Margins (%)	19.6	18.1	19.6	18.1	12.3

Source: Company, DBS HK

**CMGE Technology Group Ltd.**
**Balance Sheet (RMB m)**

FY Mar	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	5	6	9	11	13
Invt in Associates & JVs	126	97	231	231	231
Other LT Assets	2,497	3,218	4,276	4,016	3,756
Cash & ST Invt	1,387	1,594	1,321	2,098	3,117
Inventory	0	0	0	0	0
Debtors	20	13	11	11	11
Other Current Assets	1,174	1,402	1,993	2,456	3,040
<b>Total Assets</b>	<b>5,208</b>	<b>6,331</b>	<b>7,842</b>	<b>8,824</b>	<b>10,168</b>
ST Debt	687	841	867	946	1,095
Creditors	463	471	769	769	769
Other Current Liab	134	152	152	152	152
LT Debt	17	13	8	8	8
Other LT Liabilities	196	53	251	251	251
Shareholder's Equity	3,604	4,704	5,794	6,698	7,892
Minority Interests	108	96	0	0	0
<b>Total Cap. &amp; Liab.</b>	<b>5,208</b>	<b>6,331</b>	<b>7,842</b>	<b>8,824</b>	<b>10,168</b>
Non-Cash Wkg. Capital	598	793	1,084	1,546	2,130
Net Cash/(Debt)	682	740	445	1,144	2,013
Debtors Turn (avg days)	1.8	1.6	1.1	0.7	0.6
Creditors Turn (avg days)	56.7	68.3	97.1	91.6	74.1
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	0.7	0.7	0.6	0.7	0.7
Current Ratio (x)	2.0	2.1	1.9	2.4	3.1
Quick Ratio (x)	1.1	1.1	0.7	1.1	1.6
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	29.6	14.1	13.7	12.6	10.9
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

**Cash Flow Statement (RMB m)**

FY Mar	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	344	717	651	993	1,313
Dep. & Amort.	78	105	156	383	383
Tax Paid	(100)	(27)	(57)	(89)	(118)
Assoc. & JV Inc/(loss)	(8)	13	2	2	2
(Pft)/ Loss on disposal of FAs	(51)	(329)	0	(30)	(30)
Chg in Wkg. Cap.	(372)	(80)	(577)	(385)	(434)
Other Operating CF	421	225	174	55	55
<b>Net Operating CF</b>	<b>310</b>	<b>624</b>	<b>349</b>	<b>929</b>	<b>1,171</b>
Capital Exp. (net)	(208)	(121)	(120)	(120)	(120)
Other Invt. (net)	95	1	0	0	0
Invt in Assoc. & JV	(20)	(7)	(2)	(2)	(2)
Div from Assoc & JV	25	0	0	0	0
Other Investing CF	(1,210)	(758)	(866)	(5)	(5)
<b>Net Investing CF</b>	<b>(1,319)</b>	<b>(885)</b>	<b>(988)</b>	<b>(127)</b>	<b>(127)</b>
Div Paid	0	(75)	(214)	0	0
Chg in Gross Debt	391	9	313	0	0
Capital Issues	1,351	459	702	0	0
Other Financing CF	(106)	(108)	(139)	(25)	(25)
<b>Net Financing CF</b>	<b>1,635</b>	<b>285</b>	<b>663</b>	<b>(25)</b>	<b>(25)</b>
Currency Adjustments	0	0	0	0	0
Chg in Cash	627	24	24	777	1,019
Opg CFPS (RMB)	0.36	0.30	0.40	0.56	0.68
Free CFPS (RMB)	0.05	0.21	0.10	0.35	0.45

Source: Company, DBS HK

### Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	11-Aug-21	HK\$4.11	HK\$6.00	Buy

Source: DBS HK

Analyst: Tsz Wang Tam

Lilian Lv



RT LaDBS HK recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

\*Share price appreciation + dividends

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Sources for all charts and tables are DBS HK unless otherwise specified.

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