

Hong Kong

ADD (no change)

Consensus ratings*: Buy 2 Hold 0 Sell 0

Current price:	HK\$1.90
Target price:	HK\$4.03
Previous target:	HK\$8.35
Up/downside:	112.2%
CGI / Consensus:	na
Reuters:	2131.HK
Bloomberg:	2131 HK
Market cap:	US\$192.6m HK\$1,512m
Average daily turnover:	US\$0.21m HK\$1.67m
Current shares o/s:	828.3m
Free float:	21.8%

*Source: Bloomberg

Key changes in this note

- Turnover forecast for 2022F and 2023F increased by 34.5% & 39.9%, respectively.
- Net profit forecast for 2022F and 2023F increased by 56.7% & 58.9%, respectively.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-2.6	-22.8	-73.7
Relative (%)	1.7	-5.9	-46.8

Major shareholders

	% held
Wang Chen	14.2
Xu Jiaqing	12.0
Jijiji	9.7

We cut our net profit forecast for 2022F and 2023F by 56.7% and 58.9%, respectively, as we factored in lower revenue growth and gross profit margin. We reiterate our ADD rating with a lower target price of HK\$4.03.

NetJoy

Greater clarity after the dust settled down

- Like some of its peers', NetJoy's 2021 performance (especially 2H21) was negatively impacted by policy, which was the key reason for the much lower-than-expected results.
- The Company's growth in 2022-2024 will be driven by a recovery in its online market solutions business (with the normalization of government regulations) and continued growth in its livestreaming and SaaS business.
- The COVID-19 outbreak (lockdowns) created near-term pressure, but for full-year 2022, the Company reiterated its gross billing target.
- Gross profit margin improvement and improving cash flow are the two major medium-term rating catalysts.
- We reiterate our ADD rating and lower our target price (TP) to HK\$4.03 (based on 20x 2022 P/E, in line with our target P/E for its listed peers). The downward revision in our TP is due to: a) lower net profit forecasts and b) a reduction in the target P/E from 30x to 20x.

Resumed growth in 1Q22

NetJoy announced that it recorded gross billings of Rmb1,965m in 1Q22, representing a yoy increase of 20.5% and a qoq increase of 34.3%. The business mix may be different, but gross billings can be treated as a proxy for the Company's revenue growth. In our view, the figures indicate that the Company is back on the growth track after a challenging 2H21 (especially 4Q21) because of government policy and the macro environment. The Company will focus on several areas to drive future growth: a) consolidating its diversified media cooperation network, deepening cooperation with top domestic short-video platforms, and broadening its overseas short-video market at the same time; b) strengthening R&D and the application of the latest digital technology, accelerating the upgrade of its platform technology and service capabilities, and enhancing the application capabilities of AI technology in multiple commercial scenarios to get well-positioned for virtual-reality commercial scenarios in the future; c) continuing to closely monitor and follow market trends, further diversify its business footprint, and accelerate the establishment of its presence in emerging businesses, such as brand livestreaming operations, brand cross-border services, the maker economy and local lifestyle; and d) actively pursue strategic partnerships, investments and acquisition opportunities to improve its overall capabilities and develop its short-video marketing services ecosystem.

SaaS and livestreaming are two growth drivers

To meet growing market demand, in 2021, NetJoy deployed its excellent technical capabilities in big data management and the large-scale production of short videos on a platform to initiate the SaaS business with the launch of cloud service platforms such as Tradeplus and hepai.video. In 2021, NetJoy successfully commercialized its cloud services platforms, with first-year revenue of Rmb32.9m. The Company also actively expanded its business landscape and further enriched its revenue streams by extending its capabilities to new areas including the fast-growing brand livestreaming operations, brand cross-border services and the maker economy. NetJoy also continued to strengthen its algorithm capabilities and the application of AI technology in the video field, and further improved its video production capacity and advertising efficiency to meet the market's higher requirements for cost reduction and efficiency enhancement in all aspects of marketing.

We cut our net profit forecast for 2022F and 2023F by 56.7% and 58.9%, respectively, as we factored in lower revenue growth and gross profit margin. We reiterate our ADD rating with a lower target price of HK\$4.03.

Financial Summary	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (Rmbm)	2,577	3,122	4,227	5,481	6,843
Operating EBITDA (Rmbm)	111.7	121.3	190.9	251.2	297.1
Net Profit (Rmbm)	103.6	117.4	144.0	187.6	217.9
Normalised EPS (Rmb)	0.13	0.16	0.19	0.24	0.28
Normalised EPS Growth	8.8%	17.0%	20.4%	27.8%	15.1%
FD Normalised P/E (x)	12.09	10.34	8.59	6.72	5.84
DPS (Rmb)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	4.83	13.24	10.54	8.69	7.87
P/FCFE (x)	NA	NA	NA	8.42	5.20
Net Gearing	(53.8%)	16.2%	38.4%	43.6%	46.4%
P/BV (x)	0.90	0.85	0.78	0.70	0.63
ROE	12.5%	8.5%	9.5%	11.0%	11.4%
% Change In Normalised EPS Estimates			(56.4%)	(61.5%)	
Normalised EPS/consensus EPS (x)			0.45	0.40	

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Analyst

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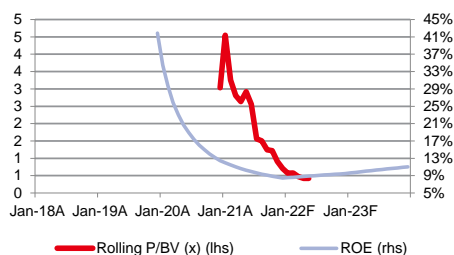
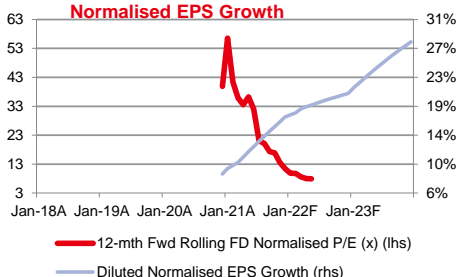
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Figure 1: Change in assumptions

	FY2022F			FY2023F		
	Old	New	% change	Old	New	% change
Revenue (Rmb m)						
Online marketing solutions business	6,448.0	4,149.7	-35.6%	9,117.5	5,394.4	-40.8%
Pan-entertainment content services busi	5.2	11.3	115.2%	3.7	7.9	115.2%
SaaS		65.8			78.9	
Total	6,453.2	4,226.7	-34.5%	9,121.2	5,481.2	-39.9%
YoY Change (%)						
Online marketing solutions business	44.4	35.0		29.7	30.0	
Pan-entertainment content services busir	(30.0)	(30.0)		(30.0)	(30.0)	
Total	44.3	35.4		29.7	29.7	
Gross margin (%)						
			ppt			ppt
Online marketing solutions business	8.1	5.9	(2.2)	8.1	5.9	(2.2)
Pan-entertainment content services busir	(1.8)	28.9	30.7	(1.8)	28.9	30.7
SaaS		88.2			88.2	
Costs (Rmb m)						
S,G&A	(137.9)	(135.5)	-2%	(147.2)	(160.9)	9%
R&D	(36.3)	(10.7)	-70%	(43.2)	(13.9)	-68%
Financial Expenses	(15.0)	(21.5)	44%	(19.4)	(30.1)	55%
Net profit (Rmb m)	332.9	144.0	-56.7%	456.3	187.6	-58.9%
YoY Change (%)						
S,G&A	39.6	17.1		6.8	18.7	
Financial Expenses	44.3	35.4		29.7	39.6	
Gross billing (Rmbm)	11,606.7	8,881.7	-23%	11,606.7	8,881.7	-23%

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

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Net Revenues	2,577	3,122	4,227	5,481	6,843
Gross Profit	203	219	307	391	484
Operating EBITDA	112	121	191	251	297
Depreciation And Amortisation	(2)	(3)	(4)	(5)	(5)
Operating EBIT	110	118	187	247	292
Financial Income/(Expense)	(9)	(20)	(32)	(42)	(52)
Pretax Income/(Loss) from Assoc.	(5)	(2)	(2)	(2)	(2)
Non-Operating Income/(Expense)	23	51	26	26	25
Profit Before Tax (pre-EI)	119	147	178	228	263
Exceptional Items	(8)	(13)	(13)	(13)	(13)
Pre-tax Profit	111	134	165	215	250
Taxation	(8)	(17)	(21)	(27)	(32)
Exceptional Income - post-tax					
Profit After Tax	104	117	144	188	218
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Preference Dividends (Australia)					
Net Profit	104	117	144	188	218
Normalised Net Profit	112	130	157	201	231
Fully Diluted Normalised Profit	112	130	157	201	231

Cash Flow

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	112	121	191	251	297
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(353)	(875)	(549)	(358)	(373)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	2	3	4	5	5
Other Operating Cashflow	33	65	35	35	40
Net Interest (Paid)/Received	(6)	(16)	(22)	(30)	(41)
Tax Paid					
Cashflow From Operations	(212)	(701)	(341)	(97)	(71)
Capex	(5)	(8)	(8)	(8)	(8)
Disposals Of FAs/subsidiaries	0	0	0	0	0
Acq. Of Subsidiaries/Investments					
Other Investing Cashflow	(13)	(13)	(72)	(65)	(68)
Cash Flow From Investing	(17)	(21)	(80)	(74)	(76)
Debt Raised/(repaid)	118	398	219	331	406
Proceeds From Issue Of Shares	1,120	0	0	0	0
Shares Repurchased					
Dividends Paid	0	0	0	0	0
Preferred Dividends					
Other Financing Cashflow	(22)	(14)	(18)	(27)	(36)
Cash Flow From Financing	1,216	383	200	304	370
Total Cash Generated	987	(339)	(221)	133	223
Free Cashflow To Equity	(112)	(324)	(202)	160	259
Free Cashflow To Firm	(223)	(706)	(399)	(141)	(106)

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS... cont'd

Balance Sheet

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	1,019	356	166	324	573
Total Debtors	968	1,753	2,372	2,810	3,270
Inventories	0	0	0	0	0
Total Other Current Assets	2	281	281	281	281
Total Current Assets	1,989	2,389	2,818	3,415	4,124
Fixed Assets	4	7	11	15	18
Total Investments	0	0	0	0	0
Intangible Assets	0	0	0	0	0
Total Other Non-Current Assets	47	62	66	70	74
Total Non-current Assets	51	69	77	85	92
Short-term Debt	210	612	829	1,158	1,562
Current Portion of Long-Term Debt					
Total Creditors	265	195	264	342	427
Other Current Liabilities	56	64	72	80	90
Total Current Liabilities	531	872	1,165	1,580	2,078
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	3	4	4	5	6
Total Liabilities	535	875	1,169	1,585	2,084
Shareholders' Equity	1,505	1,583	1,727	1,914	2,132
Minority Interests	0	0	0	0	0
Total Equity	1,505	1,583	1,727	1,914	2,132

Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	11.4%	21.2%	35.4%	29.7%	24.8%
Operating EBITDA Growth	10.6%	8.6%	57.3%	31.6%	18.3%
Operating EBITDA Margin	4.33%	3.88%	4.52%	4.58%	4.34%
Net Cash Per Share (Rmb)	0.98	(0.31)	(0.80)	(1.01)	(1.19)
BVPS (Rmb)	1.82	1.91	2.08	2.31	2.57
Gross Interest Cover	18.36	7.42	8.68	8.20	7.20
Effective Tax Rate	6.8%	12.6%	12.8%	12.7%	12.7%
Net Dividend Payout Ratio	NA	NA	NA	NA	NA
Accounts Receivables Days	108.8	159.0	178.1	172.6	162.6
Inventory Days	-	-	-	-	-
Accounts Payables Days	36.21	28.92	21.35	21.72	22.13
ROIC (%)	30.1%	14.8%	8.9%	9.0%	9.3%
ROCE (%)	10.6%	6.4%	8.0%	9.0%	8.9%
Return On Average Assets	8.94%	6.56%	6.92%	7.42%	7.17%

Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Gross Billing (Rmbm)	4,079.0	6,579.0	8,881.7	11,546.1	14,432.7
Conversion rate (%)	62.9%	46.7%	46.7%	46.7%	46.7%

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 Mar 2022		
632 companies under coverage for quarter ended on 31 Mar 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	70.3%	0.8%
Hold	22.0%	0.0%
Reduce	7.8%	0.2%

Spitzer Chart for stock being researched (2 year data)

NetJoy (2131HK)

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:

- 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.

Country Ratings

Definition:

- 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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