

Razer Inc. (1337 HK)

Well-positioned integrated ecosystem for gamers

For Gamers, By Gamers. Razer is well positioned in the gaming industry with an integrated portfolio of gaming peripherals, systems, software and services. As the major beneficiary of booming global games market and SEA ecommerce market, we estimate Razer's peripheral/system/services revenue to grow 18%/20%/35% CAGR during FY21-24E. We believe Razer is a compelling way for investors to capture the opportunity of fast-growing gaming market given its market leadership and rapidly improving profitability. We are positive on Razer's outlook backed by 1) its enormous gamer base with rapid expansion, 2) stronger engagement and higher avg. spending per user with strong loyalty, and 3) recent expansion in promising payment services. Initiate with BUY and TP of HK\$3.22.

- **Integrated ecosystem well-positioned for games market growth.** Global games market will reach US\$205bn in 2023 with 8% 3-year CAGR. We believe gaming peripherals will be a key beneficiary of robust expansion of gaming industry. In FY20, global games/gaming peripheral market grew at 19%/45% YoY and Razer's hardware significantly outperformed with 52% YoY growth, crossed US\$1bn. Looking forward, we are positive for Razer's strong topline growth with enhanced profitability, and we estimate 20%/50% revenue/NP CAGR during FY21-24E.
- **Razer's monetization strategy from platform to services and payments.** In SEA, 82% of the online population are gamers. With strong user stickiness, Razer eyes on a boarder category of payment cases beyond gaming. As the GMV of SEA internet economy will reach US\$309bn in 2025 (24% 5-yr CAGR), we believe strong internet growth will boost the demand for payment services. We expect Razer's recent expansion in payment services to become a new growth driver with 35% revenue FY21-24E CAGR, driven by new merchant onboarding and surges in online shopping and digital entertainment consumption.
- **Initiate with BUY rating and TP of HK\$3.22 (48% upside).** We derive our TP of HK\$3.22 using SOTP methodology based on 25.6x/10.3x FY22E P/E for peripherals/ system segment and 1.0x FY22E P/S for services business. We believe this valuation is justified given Razer's broader ecosystem than its hardware peers. We estimate 20%/50% rev/EPs CAGR during FY21-24E.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (US\$ mn)	820.8	1,214.6	1,552.3	1,913.2	2,305.8
YoY growth (%)	15.2%	48.0%	27.8%	23.3%	20.5%
Gross profit (US\$ mn)	168.1	271.0	396.1	503.1	626.0
Gross margin (%)	20.5%	22.3%	25.5%	26.3%	27.1%
EBITDA (US\$ mn)	(29.4)	44.6	104.0	179.7	236.1
Net profit (US\$ mn)	(84.2)	5.6	59.8	117.2	160.7
Net profit margin (%)	(10.3%)	0.5%	3.9%	6.1%	7.0%
EPS (US\$)	(0.010)	0.001	0.007	0.013	0.018
Consensus EPS (US\$)	-	-	0.005	0.009	0.015
PE (x)	-	440.0	41.4	21.3	15.6
EV/EBITDA(x)	-	43.5	18.6	10.8	8.2
ROE (%)	-	0.9%	9.4%	15.8%	17.8%
Net debt/total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Initiation)

Target Price	HK\$ 3.22
Up/Downside	+48%
Current Price	HK\$ 2.18

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Stock Data

Mkt Cap (HK\$ mn)	19,424
Avg 3 mths t/o (HK\$ mn)	71
52w High/Low (HK\$)	3.36/1.21
Total Issued Shares (mn)	8,910

Source: Bloomberg

Shareholding Structure

Chen Family Hivemind Holdings	31.85%
Voyager Equity	15.07%
Lim Teck Lee Land Pte	3.82%

Source: Company data

Share Performance

	Absolute	Relative
1-mth	-19.7%	-20.5%
3-mth	-4.3%	-3.7%
6-mth	-16.4%	-22.4%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

Please cast your valuable vote for CMBIS research team in the 2021 Asiamoney Brokers Poll:

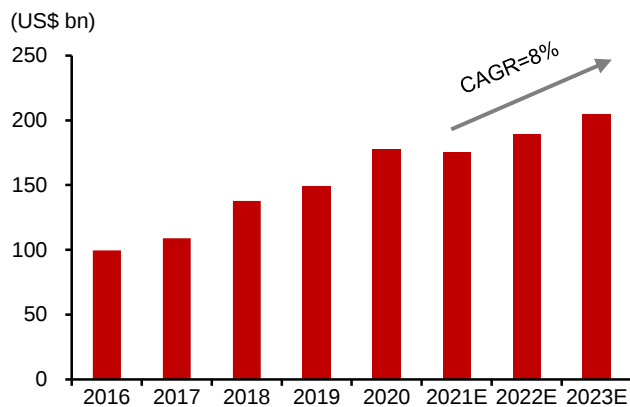
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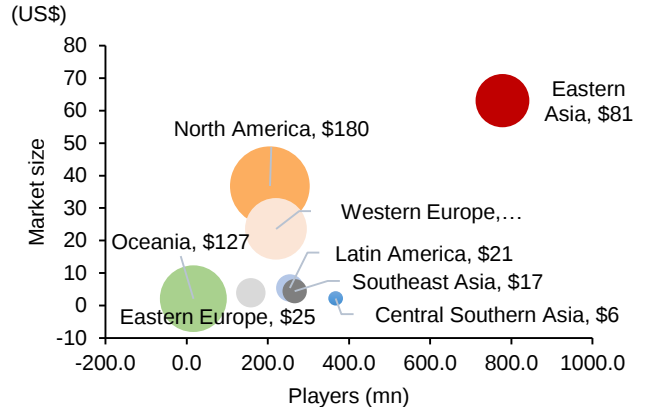
Focus Charts

Figure 1: Global Games market to reach US\$205bn in 2023E



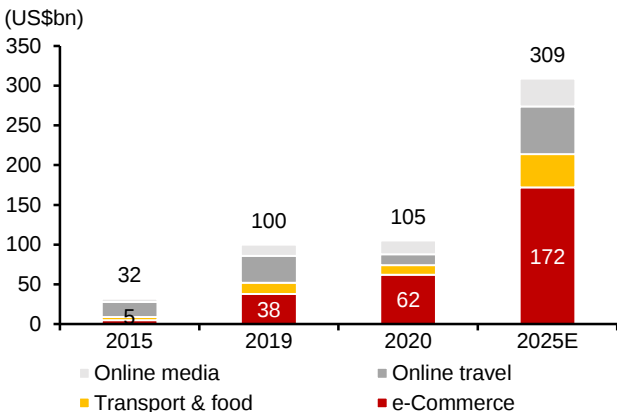
Source: Newzoo, CMBIS

Figure 2: Spending per player of top 8 games and esports regions (2019)



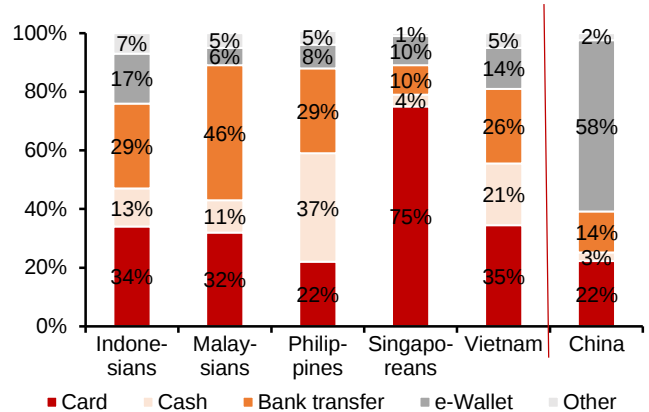
Source: Newzoo, CMBIS

Figure 3: SEA internet economy GMV to reach US\$309bn by FY25E



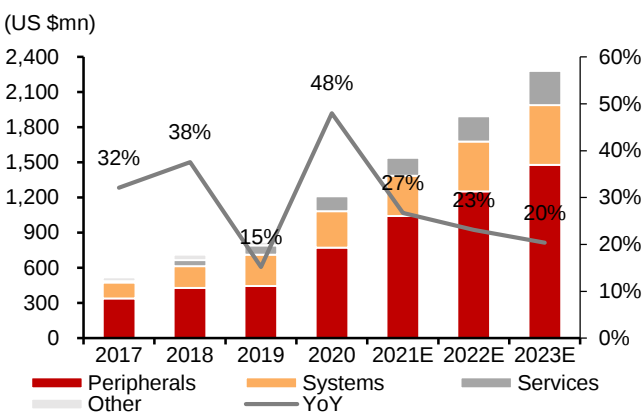
Source: Google, Temasek, CMBIS

Figure 4: Digital payment methods in SEA vs. China: Still room to grow



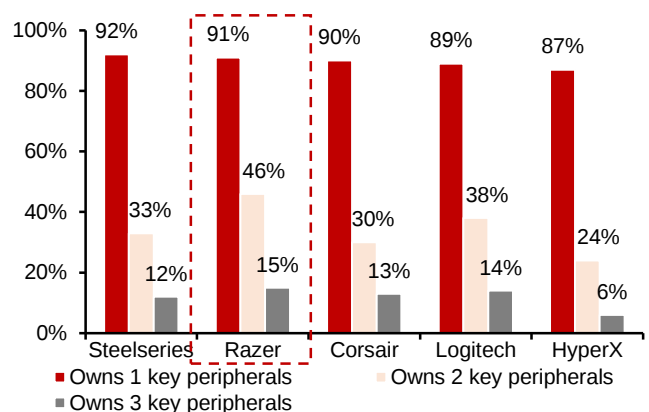
Source: PPRO, J.P.Morgan, Edgar, Dunn & Co., WPL, CMBIS

Figure 5: Razer's total revenue forecast



Source: Company data, CMBIS estimates

Figure 6: Brand loyalty vs. ownership of a set*



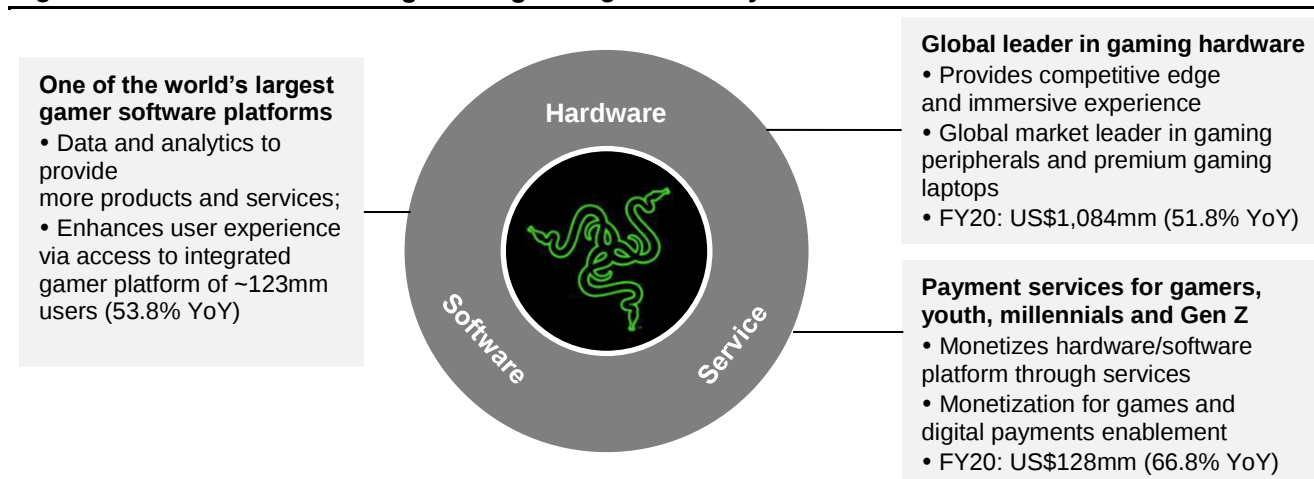
*Chart description: the share of core PC gamers who own at least one key peripheral from that brand and would buy that brand again.
Source: Newzoo (2018), CMBIS

Investment Summary

Razer: a compelling way to capture fast-growing games market opportunity

Razer is a leading global brand for gamers which offers an integrated portfolio of hardware, software and services. The Company was founded in 2005 and is famous for its premium gaming peripherals and gaming laptops. Since establishment, Razer has released a series of products, such as mouse, keyboard, headset, console, controller, speaker, camera, chair, etc. Its gaming laptops were ranked as No.1 premium brand in the U.S in FY20. Razer also provides software platforms that allow users to make personalized settings to improve user experience. With a broad offering, Razer is able to grow its user base and enhance brand loyalty. It has now grown as a leading gaming brand globally. In 2017, the Company began to monetize its software platforms by providing payment services, including virtual credits for gaming contents and payment gateway services in Southeast Asia ("SEA").

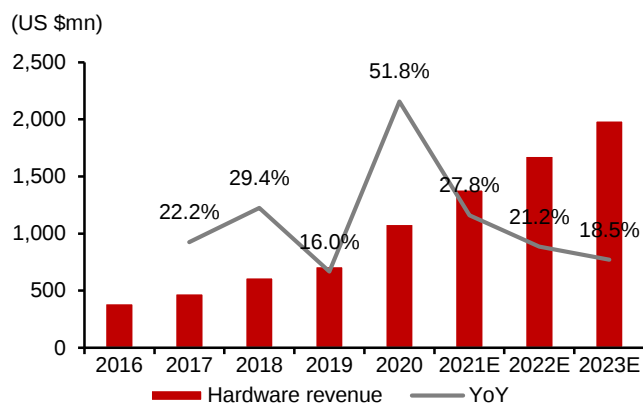
Figure 7: Razer: the world's largest integrated gamer ecosystem



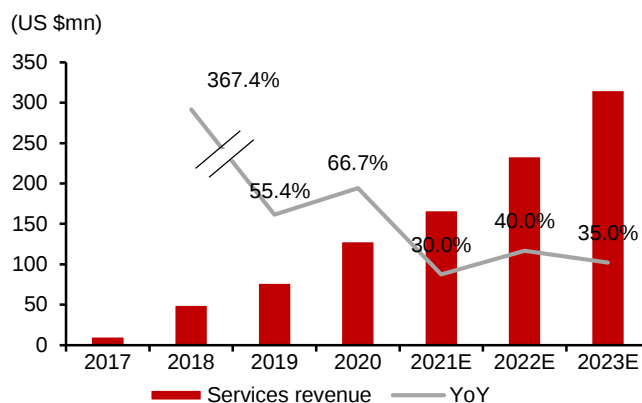
Source: Company data, CMBIS

As a global leader in gaming hardware industry, Razer generates the majority of its revenue (89% of FY20 sales) from hardware business, including peripherals and system (revenue split of 71%/29%). The segment revenue grew significantly at 51.8% YoY, crossed US\$1bn in 2020. To enhance user experience and brand loyalty, Razer has built one of the world's largest integrated gamer software platforms. Razer currently serves more than 123mn customers in FY20 (based on its registered membership), up 54% YoY. Thanks to strong user stickiness, Razer brought in payment services for gamers, monetizing its software platforms.

Razer's service segment, including Razer Gold and Razer Fintech, brought in US\$128.4mn revenue in FY20, +67% YoY. **1) Razer Gold is the unified virtual credits for gamers, with over 26mm registered users.** Its users can access to 34k games and entertainment titles through over 1mn offline retail payment channels and over 4mm payment channel touchpoints worldwide with leading market shares in emerging markets, such as SEA, LatAm and Middle East. Its **Total Purchase Value ("TPV") grew by 102% YoY in FY20.** **2) Razer Fintech provides payment gateway business in emerging markets.** It has become one of the leading offline-to-online ("O2O") digital payments networks in SEA. Razer Fintech is **growing fast with TPV growth of 104%** (\$4.3bn in FY20), driven by new merchant onboarding and surges in online shopping and digital entertainment consumption, especially during the pandemic.

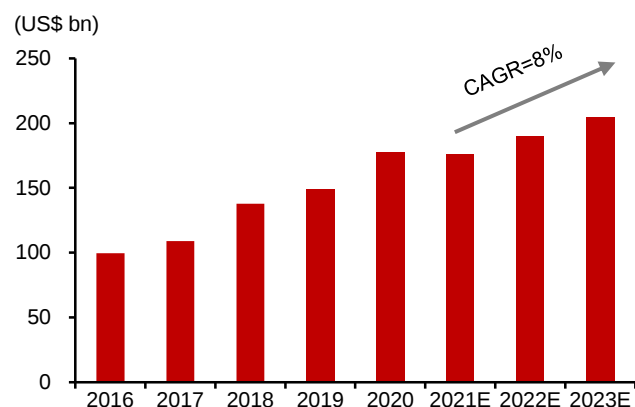
Figure 8: Razer's Hardware revenue to grow at 18% FY21-24E CAGR


Source: Company data, CMBIS estimates

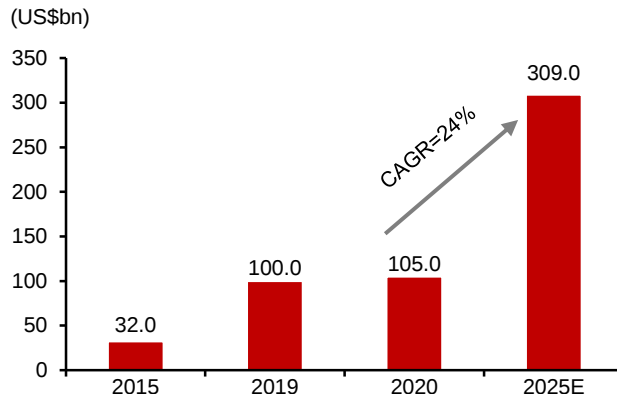
Figure 9: Razer's Service revenue to grow at 35% FY21-24E CAGR


Source: Company data, CMBIS estimates

Razer's recent expansion into payment services will be a new growth driver. In SEA, 82% of the online population are gamers. As e-commerce is developing fast in emerging markets, Razer eyes on a broader category of payment cases beyond gaming. The Gross Merchandise Value ("GMV") of internet economy in SEA will reach US\$309bn in 2025, with a 5-year CAGR of 24%. The strong growth of internet sales will drive up the demand for payment services. Although the payment industry is currently highly fragmented in SEA, consumers will eventually choose a payment provider through whom users can purchase a variety of products or services, not just game or entertainment related.

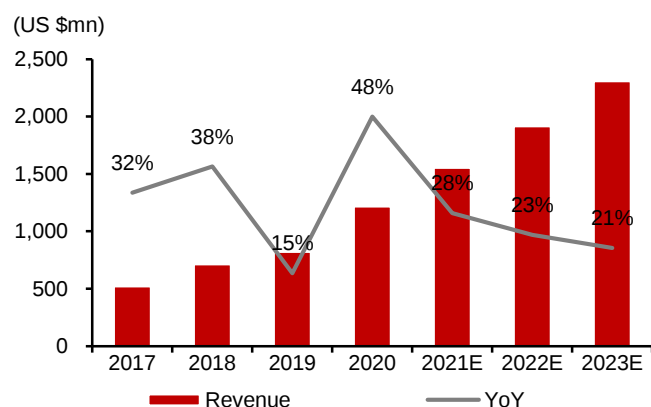
Figure 10: Global games market to reach US\$205bn in 2023E


Source: CMBIS, Newzoo

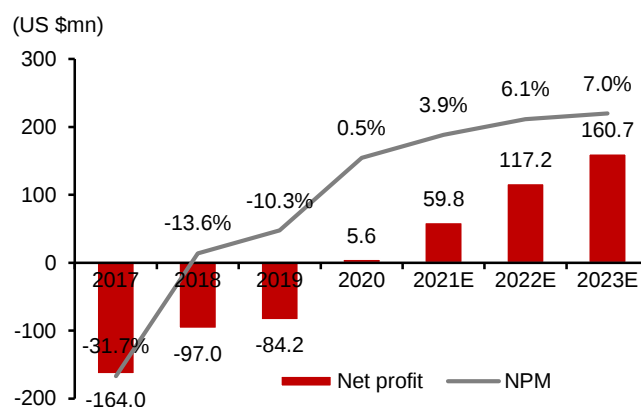
Figure 11: GMV of internet economy in SEA to reach US\$309bn by 2025E


Source: CMBIS, Newzoo

Razer delivered record high revenue in 2020, with broad-based growth across all businesses. Razer's FY20 revenue/gross profit were US\$1,215mn/US\$271mn (48%/61% YoY), driven by 1) robust demand and share gains from hardware segment and 2) strong growth from Service business due to expansion of game market and stay-at-home economy. Net profit was US\$5.6mn (vs. FY19: -US\$84.2mn), achieved profitability for the first time. **Looking ahead, we estimate Razer to deliver 20%/50% revenue/earnings CAGR during FY21-24E.**

Figure 12: Revenue to grow at a CAGR of 20% (FY21E-24E)


Source: Company data, CMBIS estimates

Figure 13: Net profit to grow at a CAGR of 50% (FY21E-24E)


Source: Company data, CMBIS estimates

We derive our TP of HK\$3.22 based on Sum-of-the-Parts (“SOTP”) methodology with 25.6x/10.3x FY22 P/E for peripherals and system segments and 1.0 FY22 P/S for services business. We believe this valuation is justified given 1) Razer’s broader ecosystem than its hardware peers, 2) its leading position in peripheral market, 3) system business ramping up in the coming years and 4) its services business still at its early stage of development. Our TP of HK\$3.22 is equivalent to 31.4x FY22 P/E and 1.9x FY22 P/S.

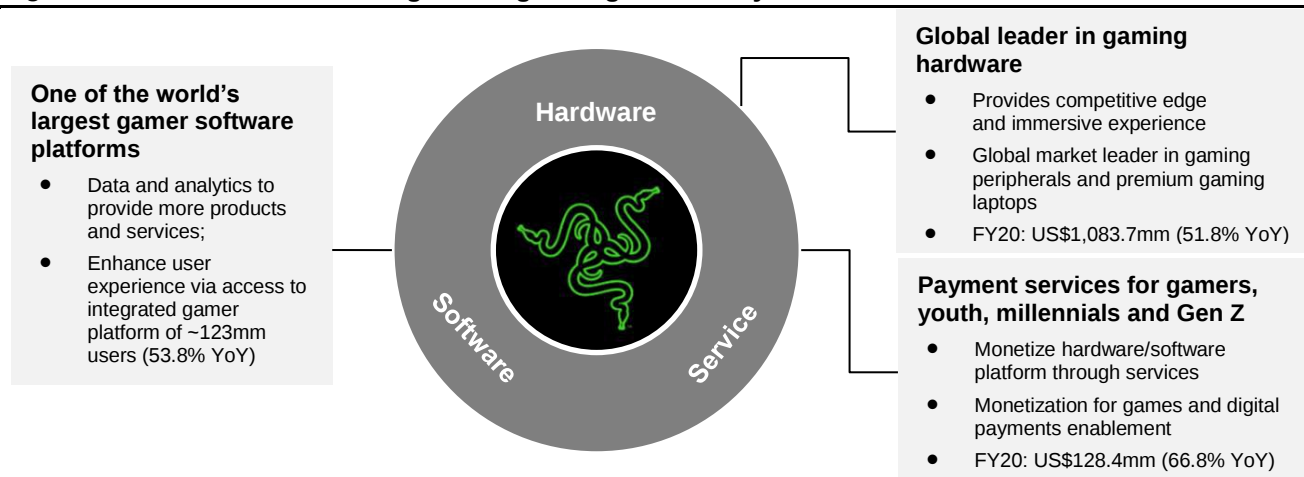
Potential risks include 1) macro economy uncertainty; 2) quicker-than-expected control of virus and early resume of work; 3) longer disruption in supply chain and severer shortage in PC component; 4) intense competition from peers with lower margin and 5) stronger regulation for its fintech business and increased difficulty in obtaining/renewing payment/banking licenses.

Razer's integrated ecosystem is well positioned to capture games market growth

Razer outlook: from peripherals to integrated ecosystem

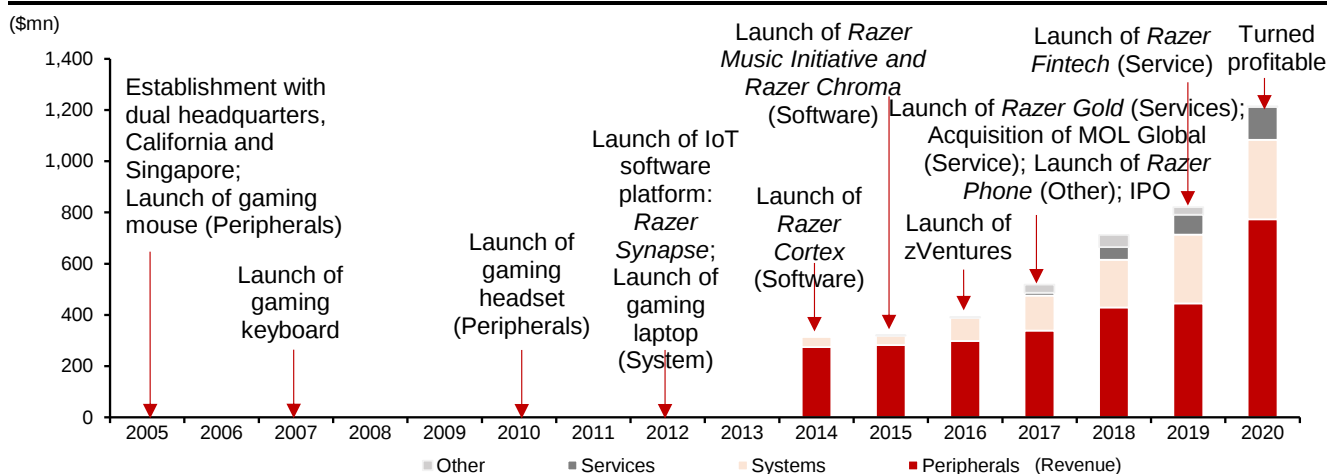
Razer is a leading global brand for gamers which offers an integrated portfolio of hardware, software and services. The company was founded in 2005 and is famous for its premium gaming peripherals and gaming laptops. Since establishment, Razer has released a series of products, such as mice, keyboard, headset, console, controller, speaker, camera, chair and etc. Its gaming laptops were ranked as No.1 premium brand in the U.S. Razer also provides software platforms that allow users to make personalized settings to improve user experience. With a broad offering; Razer is able to grow its user base and enhance brand loyalty. It has now grown as a leading gaming brand globally. In 2017, the company began to monetize its software platforms by providing payment services, including virtual credits for gaming contents and payment gateway services in Southeast Asia ("SEA").

Figure 14: Razer: the world's largest integrated gamer ecosystem



Source: Company data, CMBIS

Figure 15: Business milestones



Source: Company data, CMBIS

As a global leader in gaming hardware industry, Razer generates the majority of its revenue (89% of FY20 sales) from hardware business, including peripherals and system (revenue split of 71%/29%). Razer has leading market share in the U.S., Europe and Asia pacific, mostly ranked within top 2 (with Logitech). The hardware segment revenue grew significantly at 51.8% YoY, crossed US\$1bn in 2020.

Figure 16: Razer's broad offering of gaming hardware products



Source: Company data, CMBIS

Razer's peripheral products are highly competitive with top rankings among editors pick via different channels. Its gaming laptops were also ranked as No.1 premium brand in the U.S. As a global leader in gaming hardware industry. Razer generates majority of its revenue (89% of FY20 sales) from hardware business, including peripherals and system (71%/29%). The segment revenue grew significantly at 51.8% YoY, crossed US\$1bn in 2020.

Figure 17: Razer's peripherals among top of editors pick via different channels

	Mice			Keyboards			Headsets		
	Razer	Logitech	Corsair	Razer	Logitech	Corsair	Razer	Logitech	Corsair
									
# of products	33	21	19	23	15	29	32	15	16
Price range (\$)	\$39.99-\$169.99	\$29-\$149.99	\$29.99-\$79.99	\$59.99-\$249.99	\$29-\$249.99	\$49.99-\$229.99	\$49.99-\$299.99	\$29-\$199.99	\$39.99-\$269.99
Top 10 rank of editors pick via different channels:									
PCGamer	#1,#3,#6	#2,#7	#4	#3,#8	#5	#1	#1,#3,#5	-	-
PCmag ranking	#2,#3,#10	#9	#4,#5,#6	#5,#10	-	#1,#7	#1,#5,#9	#4	-
CNET	-	-	-	#7	#3,#9	#2	#4	#7	#1
Tom's hardware	#1,#3,#7,#9	#2	#4,#6	#4,#8	-	#3,#6,#9	-	-	-

Source: Company websites, CMBIS, as of 2020

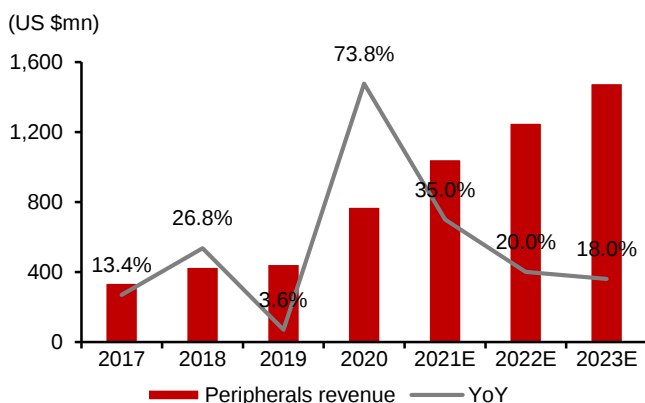
Figure 18: Razer's laptops and external graphics enclosure

	Laptop					External graphic enclosure
	Razer	Acer	MSI	Asus	Allienware/Dell	Razer
						
# of products	35	15	54	63	28	2
Top 10 rank of editors pick via different channels:						
PCGamer	#1	#8	#5	#3, #4, #6	#2	-
PCmag ranking	#10	#1, #4	#6	#3, #8	#2, #7	-
CNET	#1, #5	#3, #8	-	#4, #6	#2	-
Tom's hardware	#3	#5	#1	#2, #7, #8	#4, #6	-
Egpu.io	-	-	-	-	-	#1, #2

Source: Company websites, CMBIS, as of 2020

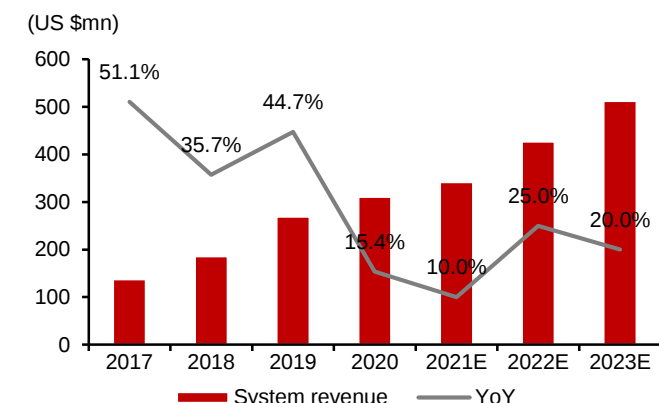
To enhance user experience and brand loyalty, Razer has built one of the world's largest integrated gamer software platforms that allow users to make personalized settings to improve user experience. From 2012, Razer began to set up a few software platforms for gamers, including configuration tool *Razer Synapse*, gaming optimization tool *Razer Cortex* and RGB lighting system *Razer Chroma*. The software platforms are designed to enhance the user immersive experience with its hardware products, aiming to grow its user base and enhance brand loyalty. Razer currently serves more than 123mn customers (based on its registered membership stats), with 53.8% YoY growth.

Figure 19: Razer's peripheral revenue to grow at 18% 3-yr CAGR (21-24E)



Source: Company data, CMBIS estimates

Figure 20: Razer's system revenue to grow at 20% 3-yr CAGR (21-24E)



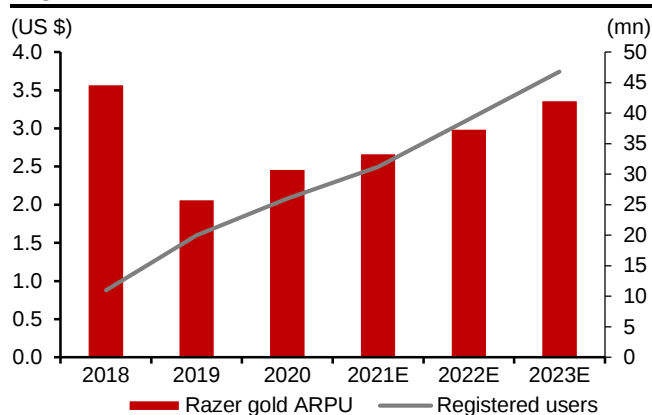
Source: Company data, CMBIS estimates

Thanks to strong user stickiness, Razer expanded into payment services for gamers, monetizing its software platforms. In 2017, the Company introduced its payment services, including 1) virtual credits for gaming contents (“Razer Gold”) and 2) payment gateway services (“Razer Fintech”) in SEA. The service segment, including Razer Gold and Razer Fintech, brought in \$128.4mn revenue, with 66.8% YoY growth.

Razer Gold is the unified virtual credits for gamers, with over 26mm registered users. Its users can access to 34k games and entertainment titles through over 1mn offline retail payment channels and over 4mm payment channel touchpoints worldwide with leading market shares in emerging markets, such as SEA, LatAm and Middle East. Its Total Purchase Value (“TPV”) grew by 102% YoY in FY20, driven by enlarging user base and increasing ARPU.

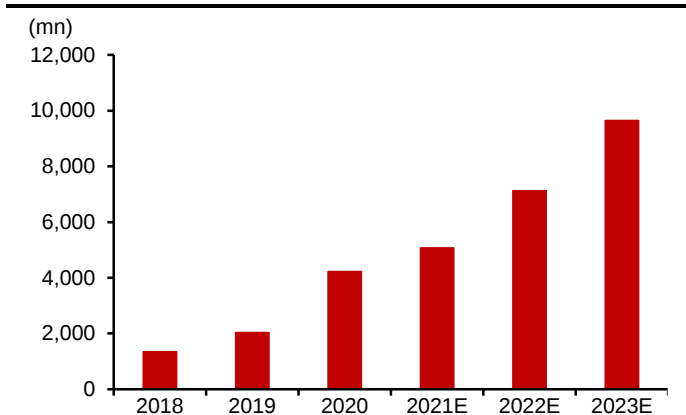
Razer Fintech provides payment gateway business in emerging markets. It has become one of the leading offline-to-online (“O2O”) digital payments networks in SEA. Razer Fintech is growing fast with TPV growth of 104% (\$4.3bn in FY20), driven by new merchant onboarding and surges in online shopping and digital entertainment consumption, especially during the pandemic.

Figure 21: Razer’s gold: increasing user base with higher ARPU



Source: Company data, CMBIS estimates

Figure 22: Razer fintech: TPV to grow at 35% FY21-24E CAGR



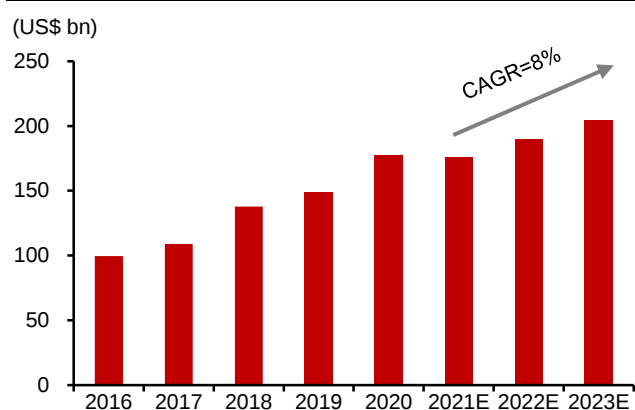
Source: Company data, CMBIS estimates

In 2016, Razer launched zVentures, a subsidiary to invest in a wide range of companies that have or will have a role to play within the larger Razer ecosystem. Investment areas include but not limited to advanced manufacturing and engineering, connected devices, esports, gaming software technology, robotics, software and analytics and virtual and augmented reality. Razer tried different opportunities in the past years, including sales of Razer phone (first model sold in 2017) and acquisition of MOL Global (Razer’s Services business). **Although Razer has discontinued its phone business in 2019 due to an increasingly competitive landscape in the smartphone market, it showed a positive sign that the Company is actively seeking new business drivers in this fast changing world.**

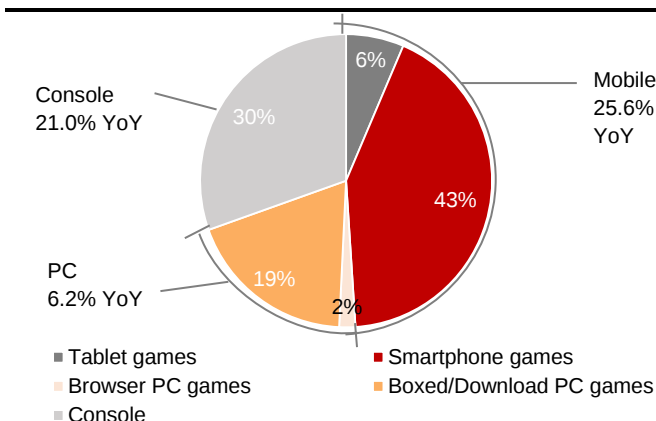
Leading position in fast-growing games market with strong user engagement

Razer operates in a large addressable market for gamers, with market size of \$205bn by 2023, a 3-year CAGR of 8%. According to Newzoo, TAM of global games market is US\$177bn in 2020 (19.2% YoY), driven by stay-at-home economy as a result of pandemic outbreak and lockdown measures. For FY20, all games markets (mobile/PC/console) grew with 27%/3%/19% YoY, thanks to 1) higher level of gamer engagement, 2) fast growing stay-at-home economy and 3) launch of the latest-generation console by the end of 2020. Mobile gaming, including tablet games and smartphone games, remained the largest segment. Increase in boxed/download PC games (5%) was partially offset by the decrease in browser PC games (-9%), of which the players have gradually transitioned to mobile. Console gaming is now the second largest segment as content subscriptions (Xbox Game Pass, Sony's PlayStation Now) and online services become more important (Xbox Live, PlayStation Plus). Game-as-a-services is new trend that will support the growth of console gaming market.

Figure 23: Games market to reach US\$205bn in 2023E **Figure 24: Global games market breakdown (2020)**



Source: Newzoo, CMBIS



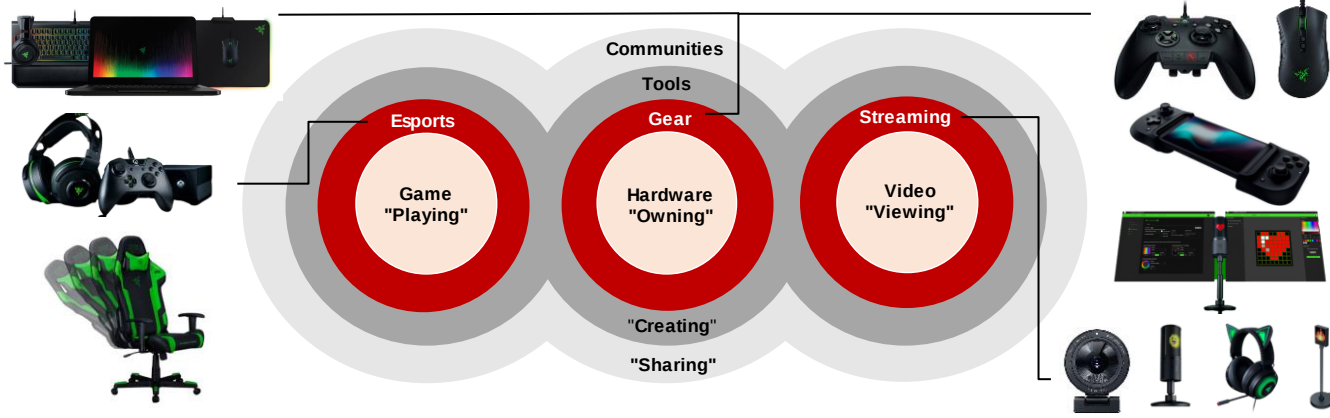
Source: Newzoo, CMBIS

Gaming peripherals, including headset, mice, keyboard and console/controller, is set to benefit from robust expansion of the games market. It was a banner year for peripheral brands in 2020 as total market revenue grew 45% YoY, much higher than 19% for overall games market, suggesting stronger engagement of players than ever before. Gamers now not only play games and purchase hardware gears to enhance gaming experience, but also spend time in watching game videos or streams and socialize with other players. From gamers to occasional viewers and then to esports enthusiasts, the gamers are more connected and engaged in gaming than ever before. It is clear that a full ecosystem of games is emerging and the future of games is not just games.

Gaming is now one of the popular social activities among the youth. This trend is reinforced during the pandemic. It is clear that the new normal of social distance has led to some sustained behaviour changes, if not permanent. **The increasing engagement is clearly traceable in the growth of esports market and the number of the enthusiasts.** Although in 2020, esports market has been disrupted as the lockdown measurements have reduced the number of esports events and hold up sponsorship, the negative impact was partially offset by the increase from other categories, as esports teams were forced to seek revenue alternatives, for example, online streaming (gaming content creator). As a result, total esports market revenue only declined by 1.1% YoY to US\$947.1mn for FY20.

Looking forward, we believe esports activities will gradually recover, and revenue will reach US\$1.1bn in FY21E and US\$1.6bn by FY24E, according to Newzoo. Meanwhile, the number of esports enthusiasts and occasional viewers will continue at a CAGR of 9% (2020-24E), as the online audience group is expected to grow to 646mn in 2023E from 495mn in 2020. The shift of gaming behaviors due to isolation requirements is believed to sustain for a long time as the gamers are more connected than before.

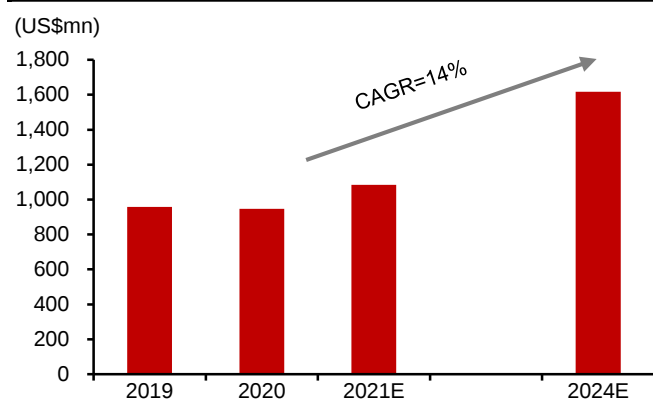
Figure 25: Razer has a broad offering of peripheral/system products for gaming, streaming and esports



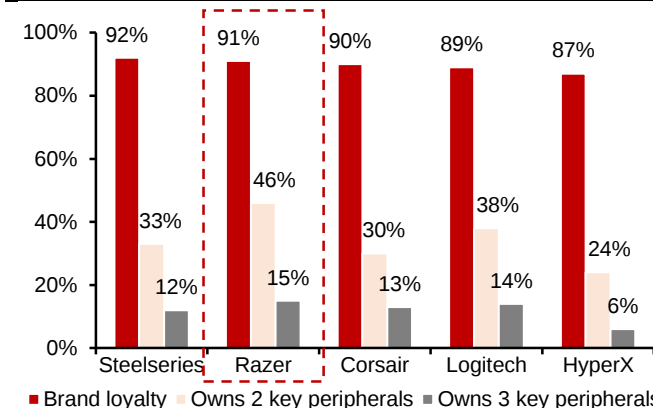
Source: Company info, Newzoo, CMBIS

We are positive on esports market outlook, especially in emerging markets where the population structure is much younger than the more matured regions and the gaming penetration rate is relatively low. For example, E. Asia, N. America and W. Europe have the highest esports audience penetration rates, all above 10% in FY20. In contrast, the ratio in LatAM, SE. Asia and MENA are only 7%/5%/4%. We see huge potentials in these emerging markets once their network upgrade is completed.

Figure 26: Global esports market will grow at a CAGR of 14% (2020-2024E)



Source: Newzoo, CMBIS

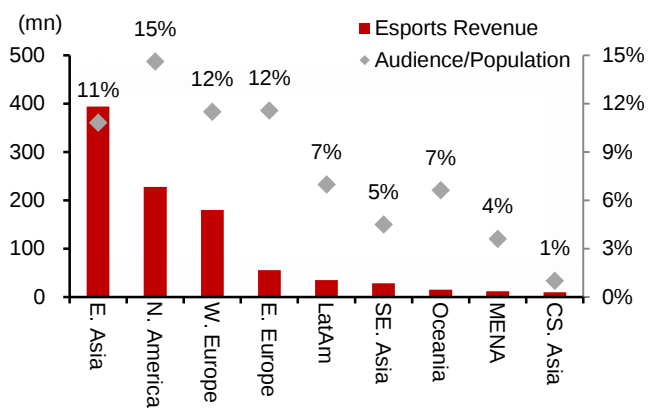


* Brand loyalty: the share of core PC gamers who own at least one key peripheral from that brand and would buy that brand again.

Source: Newzoo (2018), CMBIS

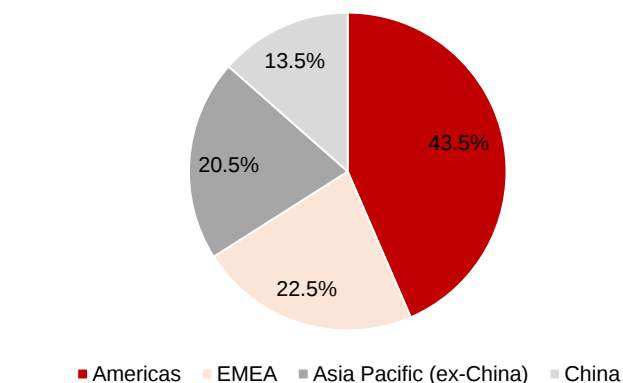
According to Newzoo, Razer has the highest conversion from brand loyalty to multiple-product ownership with 46% of Razer users owning two peripherals (2018 newzoo report). It shows Razer has a strong user stickiness, which is its most valuable asset. We believe Razer's success is a result of its transformation from a pure gaming peripheral provider to a sustainable gaming ecosystem provider. Such change is not only to provide more product choices for gamers but also to enhance its user experience, which ultimately drives brand stickiness.

Figure 28: Esports revenue still has room to grow as game audience penetration increases



Source: Newzoo, CMBIS

Figure 29: Razer's revenue by geography (2020)



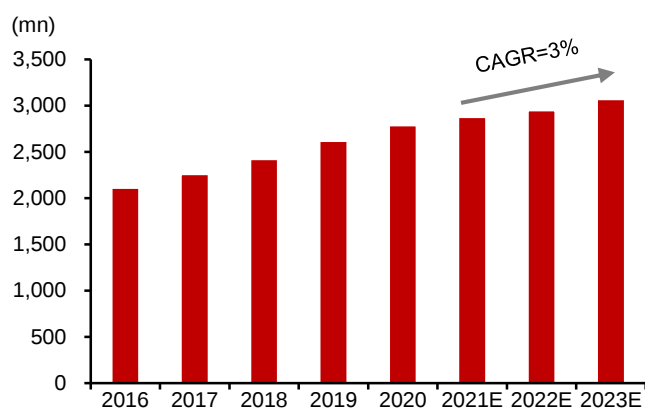
Source: Company data, CMBIS

Positive outlook with normalised growth post COVID-19

No doubt that 2020 was a significant year for gaming industry, and there are concerns over the outlook of the game/gaming peripherals market as the pandemic is expected to be gradually under control after effective vaccines are widely available. **However, we remain positive for Razer's hardware business in the long term** given 1) the enormous gamer base with expansion into fast-growing ASEAN/LatAm/MENA; 2) higher average spending per user with strong loyalty and 3) stronger player engagement as growing cloud gaming/Esports/game streaming activities will boost demand with network upgrades (4G/5G deployment).

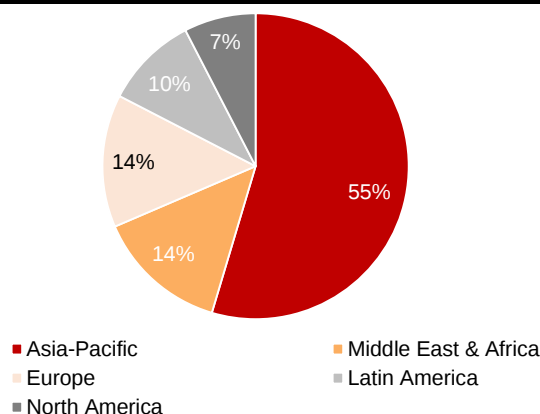
First, global player group is growing fast, reaching 3.1bn in 2023E. According to Newzoo, the number of global players is estimated at 2.8bn in 2020 (9.2% YoY). Geographically, 55% of the gaming population are in Asia-Pacific regions, followed by Europe and Middle East & Africa "EMEA" (28% combined) and Americas (17%). The number of players will grow to 3.1bn by 2023, at a CAGR of 3% (FY21E-23E). We believe the growth is mainly from ASEAN, MENA and LatAm areas, supported by their higher population growth and improved internet penetration.

Figure 30: Global players to grow at a CAGR of 3%



Source: Newzoo, CMBIS

Figure 31: Global players breakdown (2020)

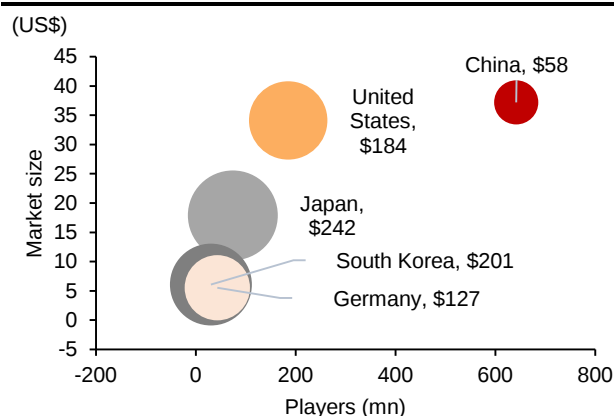


Source: Newzoo, CMBIS

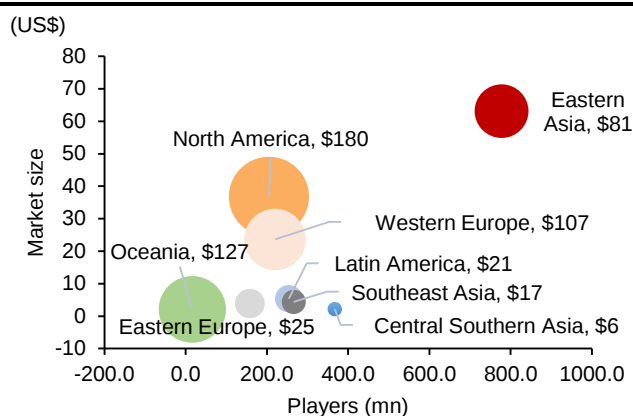
Another growth driver of global games market is consumption of gaming activities.

Within top five game markets ranked by revenue (China/U.S./Japan/S.Korea/Germany), China has the lowest spending per player of US\$58, while the spending is more than double in the other countries. From a regional perspective, emerging markets have higher GDP growth outlook but lower personal spending. For example, average spending per user in LatAm /SEA/Central S. Asia is only US\$21/17/6 vs. US\$180/127/107/81 in N. America/Oceania/W. Europe/E.Aisa.

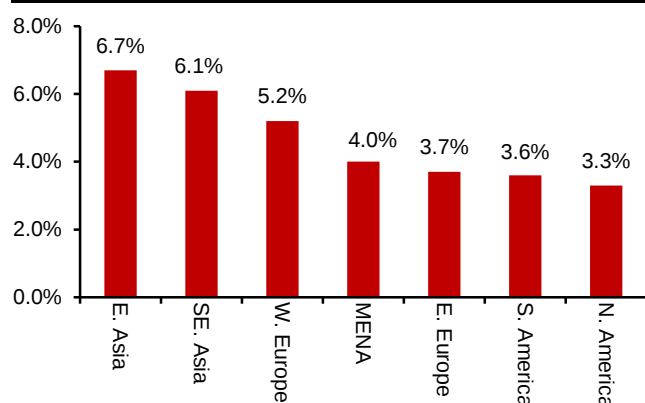
According to IMF, real GDP growth for E. Asia and SE. Asia are 6.7% and 6.1% in FY21E vs. 3.3% for N. America. We expect the consumption power in emerging countries will gradually pick up and drive the spending in gaming and its peripherals market. Razer has a strong presence globally compared to its gaming peripheral peers. Razer's FY20 revenue mix by region are 43.5%/22.5%/20.5%/13.5% in Americas/EMEA/Asia-Pacific (ex-China)/China. We believe the emerging market like SEA, MENA and S. America will have a higher contribution to Razer's revenue in coming years given their higher potential in 1) population base increase, 2) GDP growth and 3) greater consumer engagement and higher internet penetration.

Figure 32: Spending per player of top 5 games and esports markets (2019)

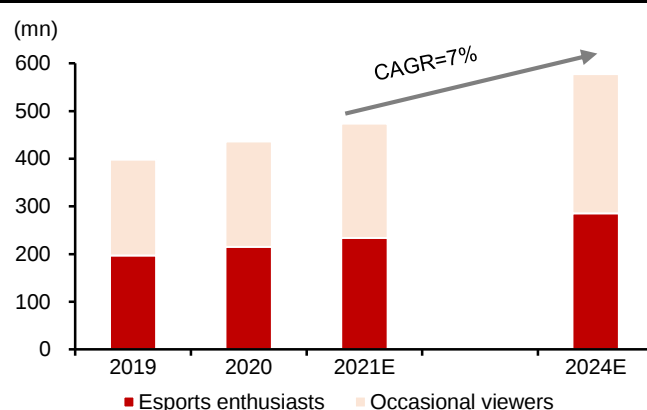
Source: Newzoo, CMBIS

Figure 33: Spending per player of top 8 games and esports regions (2019)

*Southern Asia: Cambodia, Indonesia, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam.
 Source: Newzoo, CMBIS

Figure 34: Real GDP growth Outlook (2021E)

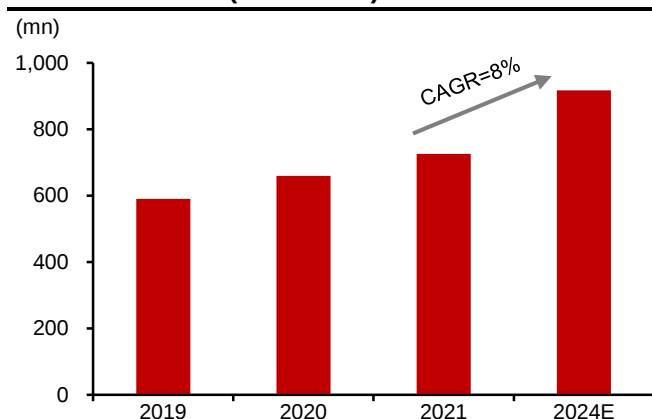
Source: IMF, CMBIS

Figure 35: Esports enthusiasts/Occasional viewers*

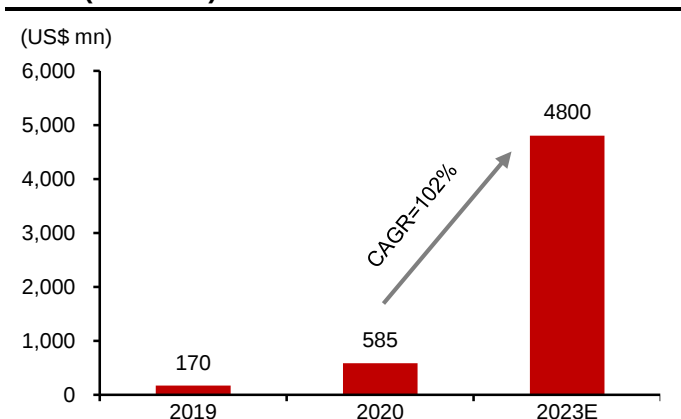
* Esports enthusiasts/occasional viewers are people who watch professional esports content more/less than once a month.
 Source: Newzoo, CMBIS

Last, cloud gaming/game streaming/esports activities will drive demand with network upgrade (4G/5G deployment). Due to the enhanced engagement of gamers, streaming business will continue its momentum and grow at 25.7% YoY to \$25.1mn in FY21E. In FY20, gaming live streaming audience grew at 12% YoY and is expected to grow at an est. CAGR of 8% from 2021-24E. We believe it will drive the demand for streaming related peripherals, especially from loyal consumers. One of the advantages for peripheral makers is that although the popularity of games will change as new contents flourish, the preference of peripheral brands will be more resilient.

Cloud gaming is another booster for the surging demand for gaming hardware, especially for headsets and controllers. The TAM of cloud gaming was only US\$585mn in 2020 but is expected to be worth US\$4.8bn by 2023. Razer provides a broad offering of controllers that work with Xbox, PS4 and PC and have a few add-on features including lighting, extra buttons and customized settings in an all-in-one configuration software.

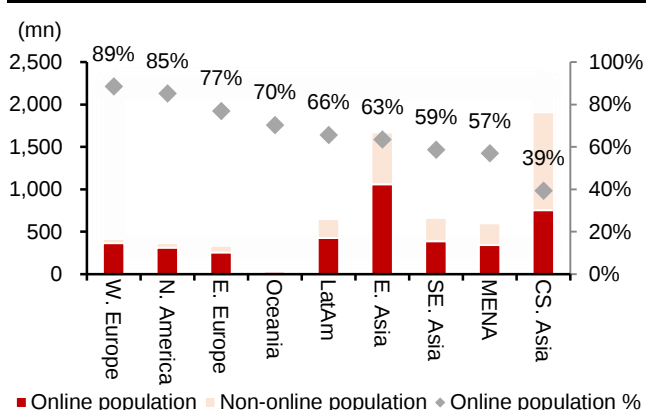
Figure 36: Gaming live streaming audience to grow at a CAGR of 8% (2021E-24E)


Source: Newzoo, CMBIS

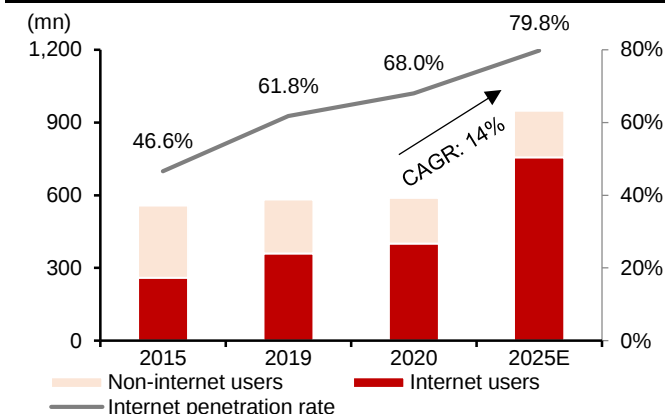
Figure 37: Cloud gaming market to grow at a CAGR of 102% (2020-23E)


Source: Newzoo, CMBIS

As the 4G/5G deployment is resuming in 2021, gaming streaming and clouding gaming will be the key beneficiary. Currently, the percentages of online population are 63%/59%/57% and 39% for E.Asia/SE.Asia/MENA/CS.Asia, while the numbers are as high as 89% and 85% for W.Europe and LatAm. The internet penetration will grow in these emerging markets as 4G/5G network deployment is resumed. We believe such increase in online population will drive the demand for games and its peripherals to the next level.

Figure 38: Internet penetration rate (2019)


Source: Newzoo, CMBIS

Figure 39: Internet penetration outlook in SEA


Source: Statista, CMBIS

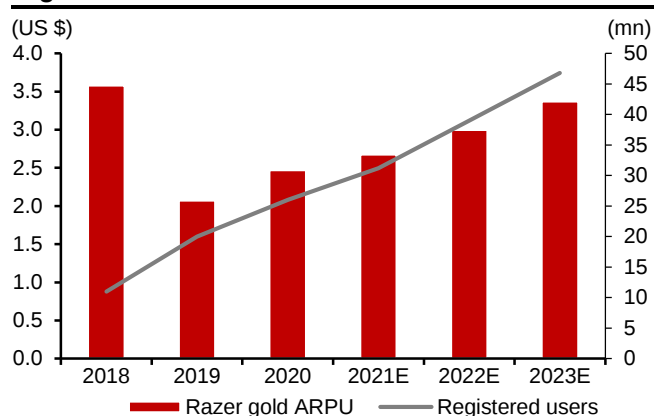
In summary, **we expect the peripherals market will stabilize in 2021, given a mixed result of healthy growth on a high base from last year and a slower rate as people return to work.** In long term, we remain positive for gaming hardware business for 1) the enormous gamer base with high growth rate, 2) higher average spending per person from loyal consumers, especially in emerging markets for their stronger economic vitality and 3) enhanced player engagement as a sustainable shift of consumer behavior which reinforced by the pandemic. **We believe Razer is a compelling way for investors to participate in the fast growing game market and we remain positive for its future growth in hardware segments given its market position and high brand loyalty.**

Razer's monetization strategy: from platform to services and payments

Start from gamers but eye beyond

As Razer's business is rooted in the games market, it is natural for the Company to turn players into payers. As e-commerce is developing fast in emerging market, Razer eyes on a boarder category of payment cases beyond gaming. In 2017, Razer introduced Razer Gold services, a payment services for gamers and entertainment with over 26mn users in FY20. With Razer gold, the users can access to over 1mn offline retail payment channels and over 4mn payment channel touchpoints worldwide with leading market shares in emerging markets such as SEA, LatAm and Middle East (former two markets are the key TPV contributor in FY20). It has 34k+ games and entertainment titles, including Activision Blizzard, Electronic Arts, Tencent and more. Razer's take rate is ~20% from content providers, lower than Apple/Google (30%) and third party Andriod app stores (50%).

Figure 40: Razer's gold: increasing user base with higher ARPU



Source: Company info, CMBIS

Figure 41: Comparison with major game content distribution service provider: still room to grow

	Razer Gold	Steam	Epic
			
No. of users	26mn	1,200mn	160mn
Sales (FY20)	US\$64.2mn	NA	US\$700+mn
ARPU	US\$2.47	NA	US\$4.38+
Third party games (%)	100%	NA	37%
Take rate (%)	~20%	20-30%	12%

Source: company data, CMBIS

Razer Gold is only for purchasing gaming content and title. However, as cashless payment becomes popular in SEA, the future belongs to those payment methods that will be accepted across various merchants or platforms. **In 2018, Razer started its Fintech business, providing payment services in emerging markets. It is one of the leading offline-to-online ("O2O") digital payments networks in SEA.**

There are two service categories under Razer Fintech: 1) Razer Pay, B2C services providing e-Wallet services where users can make payments, transfer funds, buy food and mobile top-ups through the app (currently available in Malaysia and Singapore only) and **2) Razer Merchant Service ("RMS")**, B2B services including gateway and payment processor businesses. Currently, most of Razer's fintech revenue is generated from its RMS business.

Razer Merchant Services is a leading merchant service provider in Southeast Asia since 2005. It was formerly known as MOLPay, one of the largest virtual credits platforms in the region, and was acquired by Razer later in April 2018. The Company provides extensive payment network for merchants from both online and offline.

Offline payment services is the largest offline payment network in SEA. It is an extension from Razer Gold business, sharing the same 1mn+ physical acceptance points across SEA. It provides telecom/games/entertainment reload services, bill payments, gift card purchases and e-wallet services through real time infrastructure such as terminal machines, point-of-sales (POS) systems, and web-based interface located at merchant's outlets. **Supported e-wallets include Razer Pay, Boost, Touch 'n Go, Grab Pay, Alipay, WeChat Pay, MAE and Shopee Pay.**

RMS online business is mainly a card-processing gateway supporting global scheme cards and over 110 payment methods, powering online payments for global blue-chip merchants in SEA. It provides a complete suite of payment methods from credit/debit card, online banking, e-wallet, and Razer Cash (O2O) payment. Razer targets at the untapped market (~80%) where shoppers still prefer cash or do not have debit/credit cards/online payment methods.

Figure 42: Leading O2O digital payments network for SEA



Source: Company info, CMBIS

Both Razer gold and Razer Fintech are included in the Services segment. **We believe its Services business will be the Company's next revenue driver by capturing e-payment opportunities in SEA.** In FY20, net revenue of Services segment was growing at 66.8% YoY to \$128.4mn, with GPM of 43.8% vs. 42.4% in FY19. We believe the increase in revenue is largely from Razer Gold but we also see Razer Fintech growing fast with TPV growth of 104.4% (\$4.3bn in FY20), driven by new merchant onboarding and surges in online shopping and digital entertainment consumption. Razer is serving over 50k merchants today, supporting 110+ regional payment options and has 1mn+ offline acceptance points (shared with Razer Gold business). Razer has leveraged its infrastructure and personnel strength to actively seeking vibrant channels to monetize its valuable assets, such as leading brand for gamers and its user stickiness.

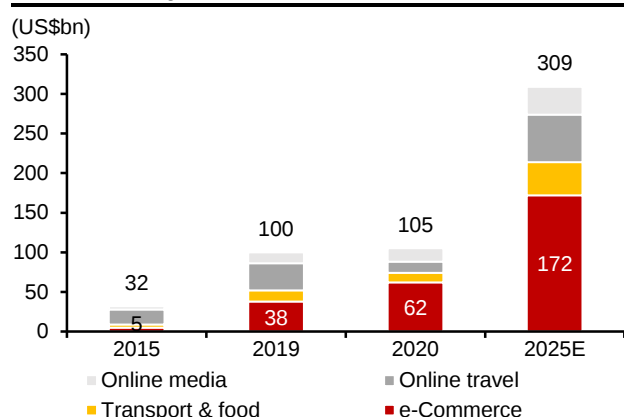
The promising future of payment market in SEA

In SEA, 82% of the online population are gamers. The Gross Merchandise Value ("GMV") of internet economy in SEA will reach US\$309bn in 2025, with a 5-year CAGR of 24%. More than half of the contribution is from e-commerce activities. Over a third of last year's online transactions was generated by new shoppers, of which 8 in 10 intend to continue buying online going forward.

The prosperity of e-commerce in SEA boosted payment volume and increased the adoption of digital payment services. Such digital acceleration will be sticky, as change of user behavior in preference for contactless payments is likely to sustain. According to Google/Temasek report, digital payment gross transaction value ("GTV") is expected to reach US\$1.2bn by 2025 in SEA.

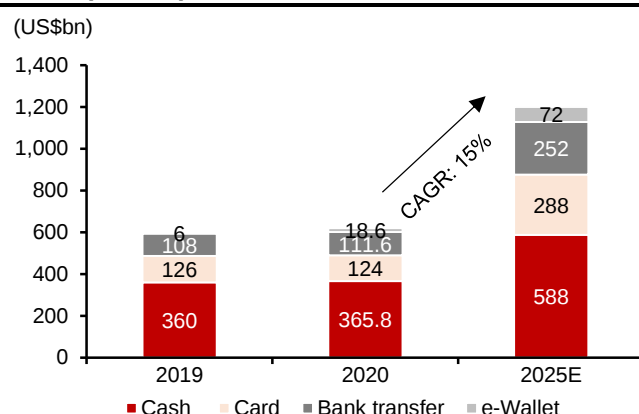
The strong growth of internet sales will drive the demand for payment services. Although the payment industry is currently highly fragmented in SEA, consumers will eventually choose a payment provider through users whom can purchase a variety of products or services, not just game or entertainment related. Razer has leverage its infrastructure and personnel strength to actively seeking vibrant channels to monetize its valuable assets, such as leading brand for gamers and its user stickiness.

Figure 43: SEA internet economy GMV to reach US\$309bn by FY25E



Source: Google, Temasek, CMBIS

Figure 44: Digital Payments in SEA to grow at 15% 5-yr CAGR (20-25E)



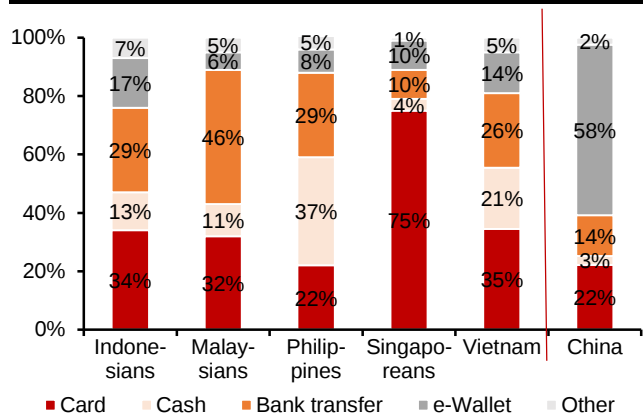
Source: Company data, CMBIS

SEA market (6 countries including Indonesia, Thailand, Singapore, Philippines, Malaysia and Vietnam) hosts nearly 600mn population by 2020. The overall GDP growth in SEA is expected to reach 5.1% in FY21. Driven by economy booming and accelerated smartphone adoption as a result of 1) younger population who are more willing to accept e-commerce and online payment/financial services, 2) 4G/5G network expansion and improved smartphone penetration and 3) demand for cashless solutions during pandemic, **e-Commerce is experiencing fast growth and digital payment penetration is rising significantly.**

SEA countries are cash-reliant, with ~50% unbanked population, but the increasing engagement of cashless payment is evident. Drivers of digital payment acceleration include 1) spillover effect from China as local merchants in SEA to attract business with Chinese tourists who prefer e-payments to cash ; 2) domestic digital payment providers in China, such as Alipay and WeChat Pay, pushes up cross-border transaction scales and 3) COVID-19 promotes e-commerce and contactless payment method.

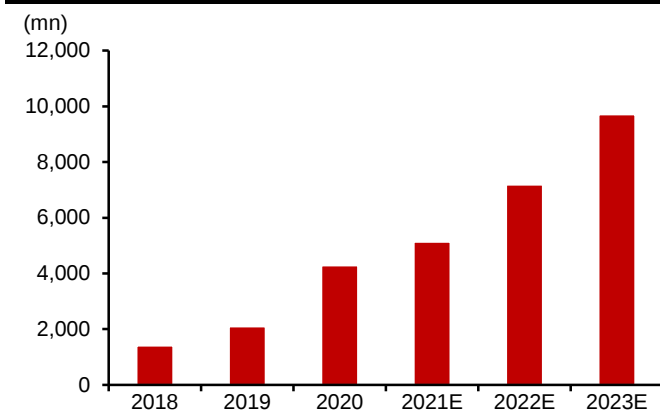
We estimate Razer's fintech business to grow 35% FY21-24E CAGR, driven by strong growth in e-commerce and increasing cashless payment adoption rate in SEA. Razer has leverage its infrastructure and personnel strength to actively seeking for vibrant channels to monetize its valuable assets, such as leading brand for gamers and its user stickiness.

Figure 45: Digital payment methods in SEA vs. China: Still room to grow



Source: PPRO, J.P.Morgan, Edgar, Dunn & Co., WPL, CMBIS

Figure 46: Razer fintech: TPV to grow at 35% 3-yr CAGR (21-24E)



Source: Company data, CMBIS

Opportunities in payment markets

Where there is a transaction, there is payment. **The payment market opportunities in SEA seems promising for its large population base, fast growing economy and duplicable business model as it has been proven to work in China.** New business eyes on SEA market, driven the attention of fintech companies from Asian, European and U.S. According to Dealroom, total valuation of the tech ecosystem in SEA is now US\$108bn and Fintech is the largest VC capital category by number of backed startups. The future of fintech market in SEA seems bright.

However, the market is fragmented, because of 1) culture, language, religion and other differences; 2) underinvested infrastructure, unstable network and high logistic costs; 3) different policies, regulations and licenses to conduct financial services. These drivers **increase difficulties in market integration for international or regional players. It earns time for Razer to leverage its strength to gain share in SEA market.**

E-wallet solutions

Razer pay is a B2C e-wallet solution, targeting the youths and millennials. Its largest presence is in Malaysia. There are many e-money issuers in Malaysia, including 6 banks and 48 non-bank issuers. Besides Razer Pay, other popular e-wallets include Boost, GrabPay, Touch'n Go, Lazada Wallet, ShopeePay. Most are thrived on a sticky user base, maintained through their repeated user scenarios, such as share-riding, deliveries and shopping. As a gamer-centric company, Razer' the core asset is its highly engaged gamers. **We believe Razer is well-positioned with its high brand recognition in this niche market, but the competition is still intense.**

We expect the industry will gradually consolidate (through M&A) but at the same time new start-ups will flourish. In short-term, payment industry will remain crowded in the near term. In the long-run, we expected payment providers with a more international presence/solution will succeed, given that 1) more cross borders transactions initiated online (for example, 40% in Malaysia); 2) user preference for a convenient all-in-one super app and 3) the difficulty to obtain a digital banking licenses and strong financial regulatory controls.

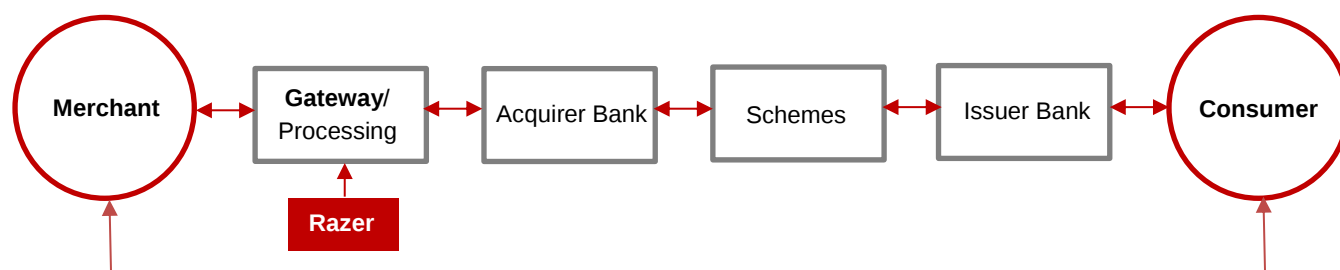
For Razer, we think it is well positioned in this digital payment industry, given that 1) its customers are all internet users; 2) strong user stickiness based on gaming-related user case and 3) infrastructure already in place from its Razer Gold business. Besides maintaining its advantages in its niche market, it has actively seek for financial services expansion, for example, applying for digital banking license in SEA. Although Razer has failed in the bid to secure a license in Singapore, as the authority held back on one of the license issuance, the Company has already eyed on other countries in the region. **The next catalyst is the award of digital banking license in Malaysia (1Q22) and other SEA countries.**

Gateway/processing service

In addition to creating new payment method, Razer also provides payment gateway services to facilitate the e-payment process. There are several roles in the payments value chain, including Merchant, Gateway, Risk management, Processing, Acquirer, Schemes, and Issuers. Razer Merchant Services supports global internet brands, such as Lazada, Shopee, Taobao, Google and Facebook. It has a proven record of managing high sales volume and reliable infrastructure. It also has the Virtual Terminal app, which is an all-in-one payment processor (point-of-sales system) through which merchant can send

payment links to customers' phone number/social channels. It accepts a variety of payment methods, including credit/debit card, e-wallets with QR code (Razer Pay, Alipay, Wechat Pay, Touch'n Go, Boost, Maybank Pay, Grab Pay), online banking, bills via payment link (additional cash payment at 7-Eleven).

Figure 47: Razer is now one of a leading regional payment gateway provider



Source: Company data, CMBIS

Payment gateway is a technology to help merchant initiate and secure the payment, connect different acquiring banks and payment methods under one system. There are numerous companies offer payment gateway services only, reflecting a fragmented market. The reasons for lack of integration are a lot of gateway technologies still plug into old infrastructure and merchant may find the switch of providers are costly and troublesome. However, we do see integration from international players who offer broader services in the value chain in recent years. We believe this trend will continue for the convenience, smooth transaction experience, better risk management and higher authorization rate on one platform. Razer positions itself as a regional player providing gateway services in SEA. **We are positive about Razer's gateway services given the strong volume growth of transactions in SEA market in the following years.**

Figure 48: Online payment gateway service providers in Malaysia

	Razer		eGHL	iPay88		Paypal	Stripe
							
Geographical presence	Regional		Regional	Regional		International	International
Package	Lite	Premium	-	SOHO	SME	-	-
Setup fee	RM499	RM400	RM499	RM499	RM400	Waived	Waived
Annual fee	RM99	RM249	RM25 or waived based on transaction volume	Waived	RM500 (1 st year only)	Waived	Waived
Transaction Fee (per transaction)	~3.8%	~3%	~2.5%-3.5%	~3.5%	~2.5%-2.9%	~3.9%-4.4%	~3.0%
Supported currencies	RM	RM	Multi	RM	RM	Multi	Multi

Source: Company websites, Sitegiant, CMBIS

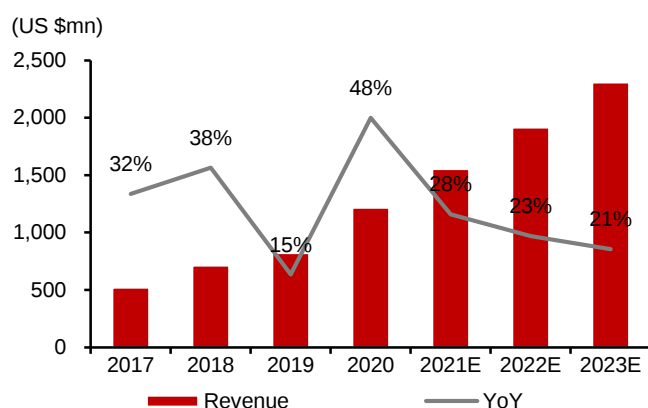
Razer positions itself as a regional player providing gateway services in SEA. In near-term, one moat for Razer as a local player, the Company has advantage in localization as 1) the market is fragmented, 2) consumer behaviors are different and 3) regulations are strict. However, we hope to see further developments of its Fintech business as the market will be highly competitive given that more international players are expanding their business into this region.

Improving profitability to sustain ahead

A year with exceptional revenue growth and first-time breakeven

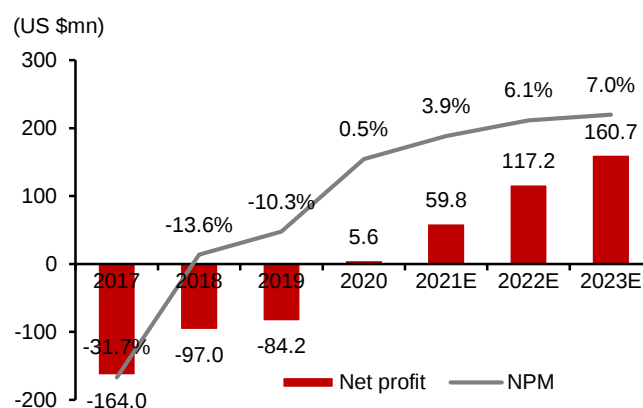
Razer delivered record-high revenue in 2020, with broad-based growth across all businesses. Razer's FY20 revenue/gross profit were \$1,215mn/\$271mn (48%/61% YoY), driven by 1) robust demand and share gains from hardware segment and 2) strong growth from Service business due to expansion of game market and stay-at-home economy. Net profit was \$5.6mn (vs. FY19: -\$84.2mn), achieved profitability for the first time. **We estimate 20%/50% revenue/earnings CAGR during FY21-24E.**

Figure 49: Revenue to grow at a CAGR of 20% (FY21E-24E)



Source: Company data, CMBIS

Figure 50: Net profit to grow at a CAGR of 50% (FY21E-24E)



Source: Company data, CMBIS

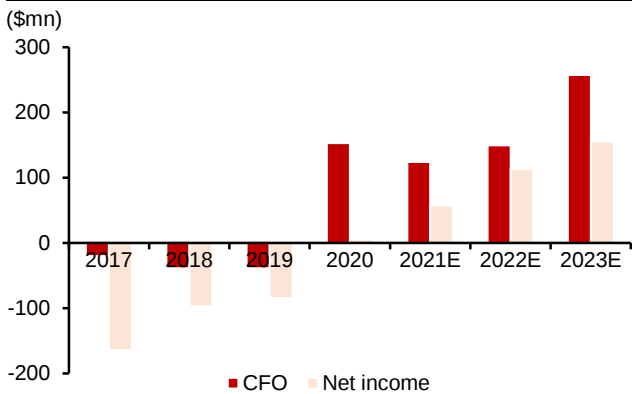
By segment, Peripherals remains the largest segment of US\$773mn (73.8% YoY), following by Systems of US\$311mn (15.4% YoY). These two segments, Hardware, accounted for 89% of FY20's total revenue. Services grew at a CAGR of 130% from \$11mn to \$128mn (FY17-20), driven by TPV YoY growth of 102%/104% for Razer Gold and Fintech. By geography, Razer has a strong global presence compared to its gaming peripheral peers, with Americans accounting for 43.5% of its total FY20 revenue.

Razer also reported a strong financial profile with no debt and over US\$600mn cash.

For FY20, Razer also generated positive operating cashflow of US\$153mn (vs. -US\$39mn in FY19) with negative cash conversion cycle. We believe Razer's financial condition is very healthy and the Company are able to capture future opportunities with such a strong liquidity position. According to the management, future capital deployment includes 1) R&D investments for new hardware and development of new services, 2) continued share buybacks and 3) investment and M&A activities. Its current R&D expense ratio is 4.4% for FY20. We expect it will remain a similar ratio for the following years.

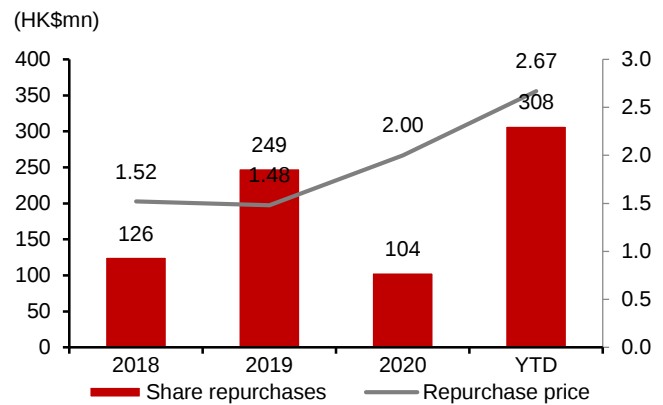
From the beginning of this year, the mgmt. is active in share buyback activities, repurchased HK\$308mn shares at an average price of HK\$2.67 YTD (vs. HK\$104mm @ HK\$2.00 in FY20). We believe it is a positive sign to show the mgmt. have strong confidence in future development and use cash to realize employee incentive scheme.

Figure 51: Positive CFO



Source: Company data, CMBIS

Figure 52: Repurchase price @ 2.67 (YTD)



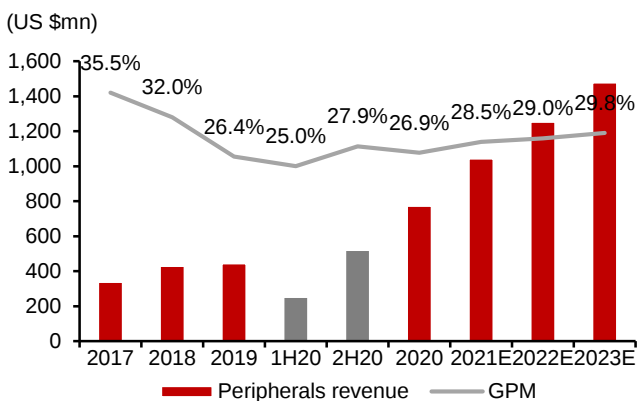
Source: Company data, CMBIS

Strong growth across Peripheral/System/Services

Peripheral segment delivered 73.8% YoY growth in FY20, mainly driven by increasing demand during the pandemic. We believe this year will be another good year for Razer, especially during the first half. Its peer, Corsair, reported strong 1Q21 revenue with 71.6% YoY growth (-4.8% QoQ on high base in Q4). We expect slower revenue growth in 2H21E given 1) high base in 2H20 and 2) positive outlook as vaccines helps to ease the pandemic and people return to work.

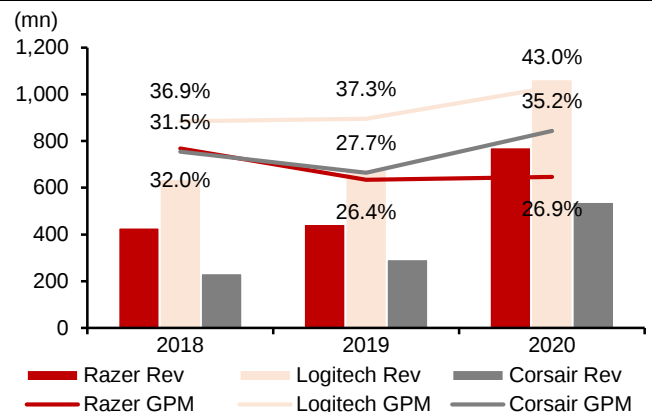
Peripheral's GPM declined in previous quarters due to product mix shift towards lower margin products, investment in products and channels, and higher freight cost in 1H20, but GPM improved to 27.9% in 2H20 (vs. 25.5% in 1H20). We expect the margin will continue recovery over the next quarters, as 1) spending to increase in gears as player's engagement is increasing and 2) product mix to improve as Razer is introducing more accretive products each year.

Figure 53: Peripherals GPM is recovering since 2H20



Source: Company data, CMBIS

Figure 54: Peripherals peers (2018-2020)

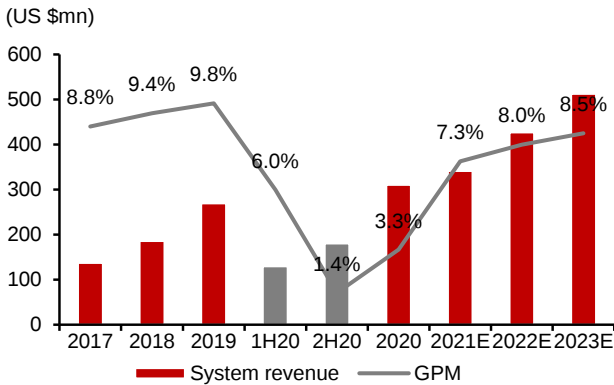


Source: Company data, CMBIS

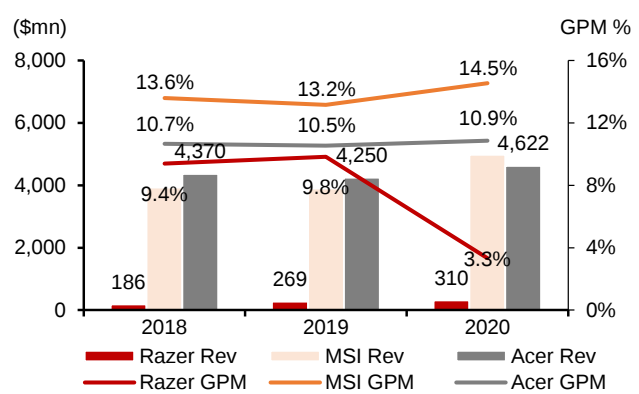
*Peers' GPMs are based on overall margin vs. Razer's is segment only.

System segment delivered 15.4% YoY in FY20, primarily due to sales from refreshed model lines. According to Canalys, 2020 was a blockbuster year for the industry and global PC market will continue to grow 8% in 2021 despite component shortages. For segment gross margin, the drop is mainly a result of one-time spare parts write-off of US\$9.3mn in 2H20 and promotion activities. Excluded this non-recurring write-off, the adjusted margin is 6.6% for 2H20. **We expect the margin to gradually improve, due to economies of scale but partially offset by the disruption in supply chain.**

Figure 55: System GPM drop due to one-time write-off and promotion activities **Figure 56: System peers (2018-2020)**



Source: Company data, CMBIS

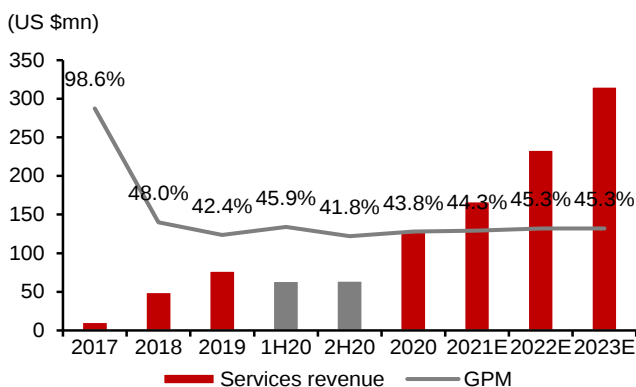


Source: Company data, Bloomberg, CMBIS, *Peers' GPM are based on blended margin vs. Razer's is segment only.

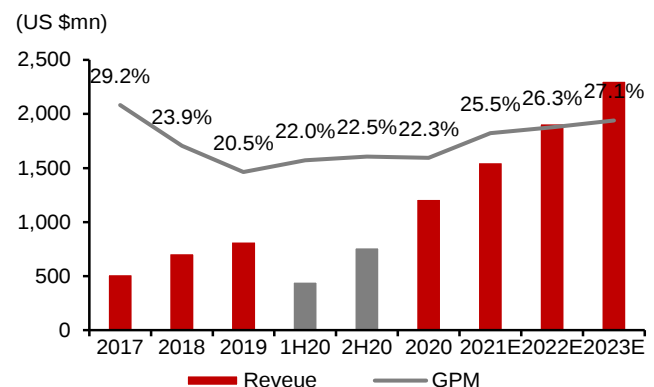
In summary, we believe Razer's hardware products will continue to maintain growth momentum as the pandemic will still affect our lives in the following years. Although the growth of games market may slow down once people returns to work, overall gaming market will continue to expand due to 1) increase in player with improved network connection and rising smartphone penetration; 2) higher gamer's engagement and 3) gaming as a new channel of social activities post-pandemic.

For Service segment, nearly half of revenue come from Razer Gold business. GPM is accretive to Razer's hardware business, and will boost blended GPM due to a favorable mix. Razer Gold will be a major beneficiary of gaming market expansion, while Razer Fintech will enjoy e-commerce market tailwinds. We hold a positive outlook as 1) continued growth of games market; 2) higher penetration of e-payment and 3) stronger growth of in-game revenue (~74%) increase the frequency of transactions and stickiness of a full services payment channel that has access to a variety of games.

Figure 57: Services GPM increase in 1Q20 due to higher utilization of Razer Gold **Figure 58: Overall GPM improves due to favorable segment mix**



Source: Company data, CMBIS



Source: Company data, CMBIS

Recent developments

ESG Initiatives

In recent years, Razer focuses on environmental sustainability and has put a lot of efforts in ESG. 1) **Green organization:** Razer is committed to operate with 100% renewable energy by 2025 and become carbon neutral organization by 2030. 2) **Green products:** Its products can be recycled by 2025, with the collaboration with global distributors, retailers and e-tailers and all the products will use recycled or recyclable materials by 2030. Meanwhile, all new products will use FSC-certified, biodegradable and eco-friendly packaging and be manufactured under the best industry standards and practices. 3) **Green investments:** Razer has also established a \$50mn fund through zVentures, investing in startups in the renewable energy, carbon and plastic segments.

We see such initiatives will benefit the Company's growth in the long-run through 1) increasing user stickiness as the youth, millennials and Gen Z are paying more attention on environmental sustainability, 2) growing interests in ESG theme of investors. According to Morningstar, sustainable funds flow increased fourfold to US\$21.4bn in 2019 and reached US\$51.1bn in 2020. We think the preference for ESG considerations will strengthen consumers' loyalty and attract more investors in the future.

Buy Now, Pay Later ("BNPL")

Razer Fintech and Rely, a Singapore-based BNPL service provider, have jointly announced their partnership to offer BNPL services in SEA to merchants registered under Razer Merchant Services (RMS). Through this partnership, Razer can provide interest-free BNPL solution for its customers.

BNPL is gaining its popularity in Europe and increasing its acceptance in the U.S., providing the customers payment option to split the bill into installment and charging them simple or zero interest. Major providers of BNPL service are Klarna, Clearpay, Laybuy, Affirm, Paypal and others. **According to Bank of America, BNPL market could grow 10-15x by 2025 and process \$650bn - \$1 trillion in transactions annually.**

We think the newly-add BNPL function will help Razer to increase its competitiveness as this service will be welcomed by both the merchants and customers. Providing BNPL solution, Razer will help its merchants increase sales conversions and minimize the chance of cart abandonment by budget-conscious customers.

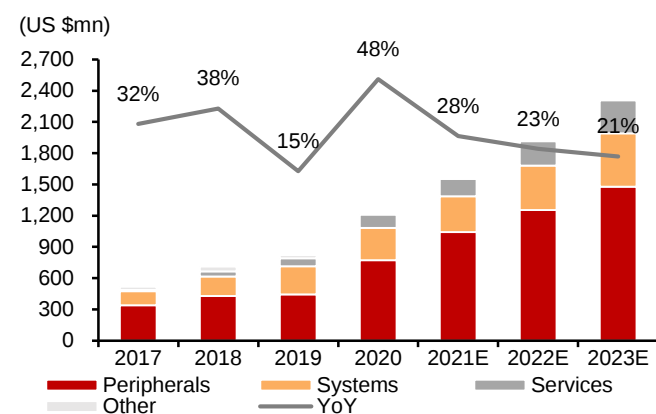
Financial Analysis

Expect 24%/47% CAGR for revenue/net profit in FY21-24E

We estimate Razer revenue to grow 28%/23% YoY in FY21E/22E, driven by 1) positive outlook for gaming peripheral expansion supported by game market growth, 2) Razer's brand name and its customer stickiness and 3) recent expansion in payment services as a new driver for future growth.

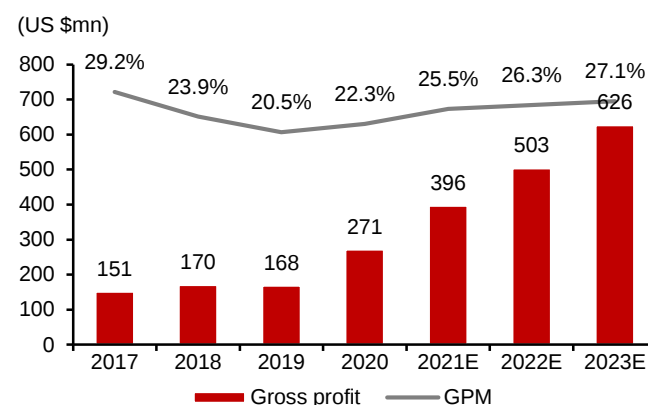
It was a banner year for gaming-related brands in 2020 and we expect the peripherals revenue will stabilize in 2021, as a mixed result of continued growth on a high base from last year boom but at a slower rate as concerns of people returning to work. In long term, we remain positive for Razer's hardware business for 1) the enormous gamer base with high growth rate, 2) stronger player engagement and higher average spending per person from loyal consumers and 3) stronger growth in emerging market.

Figure 59: Revenue forecast



Source: Company data, CMBIS estimates

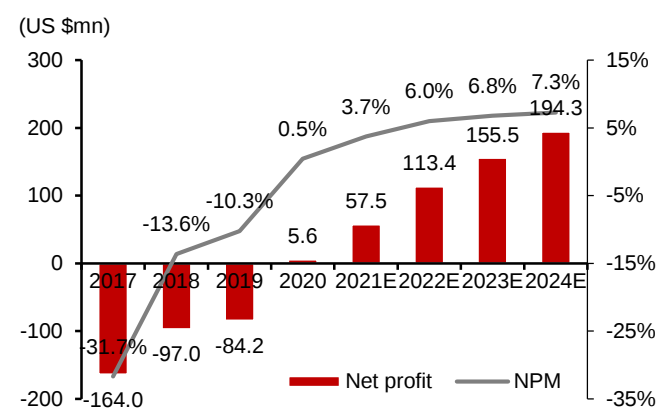
Figure 60: Gross profit and GPM forecast



Source: Company data, CMBIS estimates

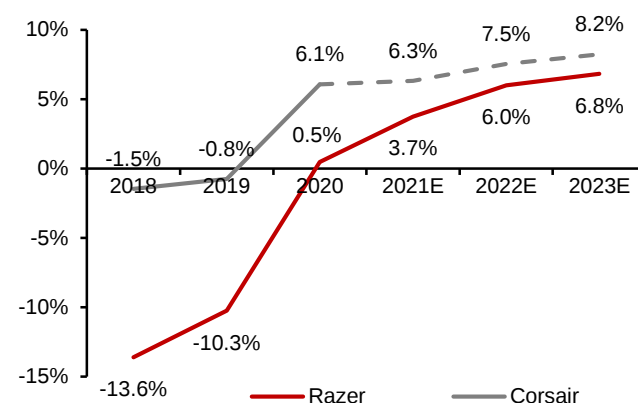
For FY21E, we expect net profit to continue to grow with operating margin expansion, similar to its gaming peripheral peer. Corsair, one of its gaming peripheral peers, became profitable in 2H19. Its net profit margin grew from 0.5% in 3Q19 to 8.8% in 1Q21. We expect Razer's profitability will sustain with margin expansion given a more diverse global presence.

Figure 61: Net profit and NPM forecast



Source: Company data, CMBIS estimates

Figure 62: Expect margin expansion after turned profitable (Razer vs. Corsair)



Source: Company data, CMBIS estimates

Figure 63: Major assumptions

US\$ mn	FY19	FY20	1H21E	2H21E	FY21E	FY22E	FY23E
Peripherals	445	773	522	522	1,044	1,253	1,478
...YoY	4%	74%	107%	0%	35%	20%	18%
Systems	269	310	154	188	342	427	512
...YoY	45%	15%	18%	4%	10%	25%	20%
Services	77	128	83	83	167	234	315
...YoY	55%	67%	30%	30%	30%	40%	35%
Others	30	2	0	0	0	0	0
...YoY	-37%	-92%	-	-	-	-	-
Total	821	1,215	759	793	1,552	1,913	2,306
...YoY	15%	48%	70%	3%	28%	23%	21%
Gross Margin							
Peripherals	26.4%	26.9%	28.0%	29.0%	28.5%	29.0%	29.8%
Systems	9.8%	3.3%	7.0%	7.5%	7.3%	8.0%	8.5%
Services	42.4%	43.8%	44.2%	44.3%	44.3%	45.3%	45.3%
Others	-28.6%	-153.7%	-	-	-	-	-
Total	20.5%	22.3%	25.5%	25.5%	25.5%	26.3%	27.1%

Source: Company data, CMBIS estimates

Figure 64: P&L forecast

US\$ mn	FY19	FY20	1H21E	2H21E	FY21E	FY22E	FY23E
Revenue	821	1,215	759	793	1,552	1,913	2,306
...YoY	15.2%	48.0%	69.6%	3.4%	27.8%	23.3%	20.5%
Gross profit	168	271	194	202	396	503	626
GPM (%)	20.5%	22.3%	25.5%	25.5%	25.5%	26.3%	27.1%
SG&A	(202)	(213)	(131)	(133)	(264)	(297)	(348)
...% of rev	-24.6%	-17.5%	-17.3%	-16.8%	-17.0%	-15.5%	-15.1%
R&D	(52)	(54)	(34)	(36)	(70)	(73)	(92)
...% of rev	-6.4%	-4.4%	-4.5%	-4.5%	-4.5%	-3.8%	-4.0%
Operating profit	(96)	(7)	29	34	62	134	186
OPM (%)	-11.7%	-0.6%	3.8%	4.2%	4.0%	7.0%	8.0%
...YoY	-3.8%	-92.7%	N/A	236.9%	-994.2%	114.7%	38.6%
Net profit	(84)	6	28	31	60	117	161
NPM (%)	-10.3%	0.5%	3.7%	4.0%	3.9%	6.1%	7.0%
...YoY	-13.2%	-106.7%	N/A	36.9%	963.6%	95.9%	37.0%

Source: Company data, CMBIS estimates

CMBI vs consensus estimates

We believe Razer is a compelling way for investors to capture opportunity in the fast-growing games market, with est. total addressable market ("TAM") of \$205bn by 2023. Gaming peripherals market, combining headset, mice, keyboard and console/controller, will certainly enjoy the future robust expansion of the game market. In long term, we remain positive for Razer's hardware business for 1) the enormous gamer base with high growth rate, 2) stronger player engagement and higher average spending per person from loyal consumers and 3) stronger growth in emerging market.

In addition, Razer's recent expansion in payment services can be a new driver for future growth. In SEA, 82% of the online population are gamers. As e-commerce is developing fast in emerging market, Razer eyes on a boarder category of payment cases beyond gaming. The Gross Merchandise Value ("GMV") of internet economy in SEA will reach \$309bn in 2025, with a 5-year CAGR of 24%. The strong growth of internet sales will drive up the demand for payment services.

Razer delivered record high revenue in 2020, with broad-based growth across all businesses and turned profitability for the first time. We believe Razer will continue to deliver strong financial performance given 1) the robust demand in gamers market and Razer's share gains from hardware segment and 2) strong growth from Service business due to expansion of game market and stay-at-home economy. **We estimate 20% revenue CAGR, 24% gross profit CAGR and 50% EPS CAGR during FY21-24E**

Figure 65: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	1,552	1,913	2,306	1,405	1,651	2,019	10%	16%	14%
Gross Profit	396	503	626	349	430	551	13%	17%	14%
EBITDA	104	180	236	58	118	186	80%	52%	27%
Net profit	60	117	161	44	87	130	35%	34%	24%
EPS (RMB)	0.007	0.013	0.018	0.005	0.009	0.015	45%	52%	20%
Gross Margin	25.5%	26.3%	27.1%	24.9%	26.1%	27.3%	0.7 ppt	0.2 ppt	-0.2 ppt
EBITDA Margin	6.7%	9.4%	10.2%	4.1%	7.2%	9.2%	2.6 ppt	2.2 ppt	1.1 ppt
Net Margin	3.9%	6.1%	7.0%	3.1%	5.3%	6.4%	0.7 ppt	0.8 ppt	0.5 ppt

Source: Bloomberg, CMBIS estimates

Valuation

Initiate with BUY rating and TP of HK\$ 3.22 (48% upside)

We consider valuation for Razer using Sum-of-the-Parts ("SOTP") methodology. **We derive our TP of HK\$3.22 based on 25.6x/10.3x FY22E P/E for peripherals and system segments and 1.0 FY22E P/S for services business.**

We believe this valuation is risk justified given 1) Razer has a broader ecosystem than its hardware peers, 2) its leading position in peripheral market, 3) system business ramping up in the following years and 4) its services business still at its early stage of development. Our TP of HK\$3.22 is equivalent to 31.4x FY22E P/E and 1.9x FY22E P/S.

We estimate 20% revenue CAGR, 24% gross profit CAGR and 50% EPS CAGR during FY21-24E. **We believe Razer is a compelling way for investors to capture opportunity in the fast-growing games market. Initiate with BUY.**

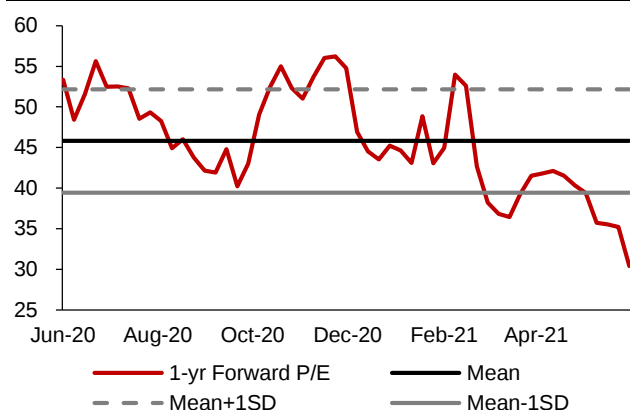
Figure 66: SOTP valuation

Segment	Est. Sales 2022E (US\$)	Sales 2022E breakdown (%)	Est. net income 2022E (US\$)	Net income 2022E breakdown (%)	Methodology	Multiple (x)	Segment Valuation US\$ (mn)
SOTP method							
Peripherals	1,253	65.5%	130	72.2%	P/E	25.6	3,327
System	427	22.3%	12	6.8%	P/E	10.3	126
Service	234	12.2%	38	21.0%	P/S	1.0	234
Total (US\$ mn)	1,913	100.0%	180	100.0%			3,686
FX (USD/HKD)							7.75
Total (HK\$ mn)							28,567
Shares O/S							8,871
TP (HK\$)							3.22

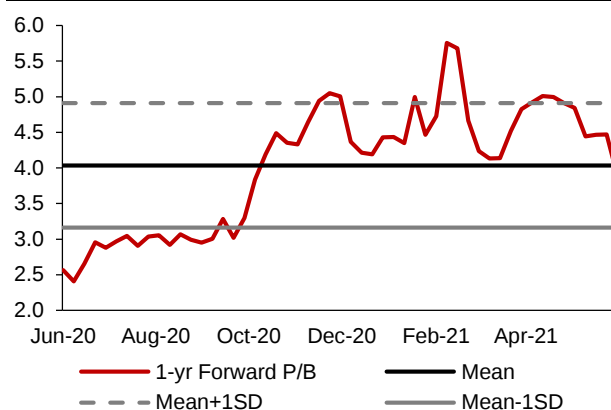
Figure 67: Peers valuation

Figure 6.11.1: Core Validation											
		Mkt Cap	Price	P/S (x)		P/E (x)		P/B (x)		ROE (%)	
Company	Ticker	US\$(mn)	(LC)	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Peripherals											
Razer	1337 HK	2,504	2.18	1.6	1.3	41.4	21.3	4.1	3.5	9.4	15.8
Logitech	LOGI US	22,886	132.21	4.7	4.3	22.7	30.2	10.0	8.7	52.1	30.3
Corsair	CRSR US	2,937	31.86	1.5	1.4	18.3	16.8	6.3	4.9	41.7	40.3
Turtle Beach	HEAR US	529	33.43	1.4	1.3	22.4	19.2	-	-	15.0	-
Peers Avg.				2.5	2.3	21.1	22.0	8.2	6.8	36.3	35.3
Peers Median				1.5	1.4	22.4	19.2	8.2	6.8	41.7	35.3
System											
Razer	1337 HK	2,504	2.18	1.6	1.3	41.4	21.3	4.1	3.5	9.4	15.8
Micro-star	2377 TT	5,214	171.00	0.7	0.7	8.9	9.6	3.1	2.9	38.9	30.5
Dell	DELL US	79,064	103.53	0.9	0.8	13.9	12.0	19.4	10.4	1076.2	105.1
HP	HPQ US	36,794	30.63	0.6	0.6	8.7	8.6	-	-	130.9	29.5
Lenovo	992 HK	14,203	9.15	0.2	0.2	12.5	10.3	3.3	2.9	30.7	32.4
Asustek	2357 TT	10,402	388.00	0.6	0.5	8.1	9.1	1.3	1.3	17.3	13.8
Acer	2353 TT	3,479	31.35	0.3	0.3	10.3	11.8	1.4	1.4	14.8	12.2
Apple	AAPL US	2,100,806	125.89	5.9	5.7	24.4	23.6	34.1	28.4	129.0	130.2
Peers Avg.				1.3	1.3	12.4	12.1	10.4	7.9	205.4	50.5
Peers Median				0.6	0.6	10.3	10.3	3.2	2.9	38.9	38.9
Services											
Razer	1337 HK	2,504	2.18	1.6	1.3	41.4	21.3	4.1	3.5	9.4	15.8
Adyen	ADYEN NA	68,398	1849.80	58.4	42.5	132.1	93.5	35.7	25.5	29.5	29.9
Paypal	PYPL US	309,000	263.04	12.0	9.9	55.7	45.1	13.1	10.3	23.5	24.3
Square	SQ US	97,308	213.69	4.7	4.0	134.8	101.3	27.6	25.6	13.6	18.0
Affirm	AFRM US	15,813	59.65	19.1	13.9	-	-	4.9	8.3	-25.5	-11.1
GHL	GHLS MK	503	1.82	5.4	4.6	55.2	41.4	3.5	3.2	7.5	9.4
Yeahka	9923 HK	2,895	49.70	5.8	4.5	34.3	26.7	4.8	4.1	14.8	15.8
Lakala	300773 CH	3,679	29.41	3.6	3.0	21.1	16.7	4.3	4.0	19.8	22.4
Peers Avg.				15.6	11.8	72.2	54.1	13.4	11.6	11.9	15.5
Peers Median				5.8	4.6	55.4	43.2	4.9	8.3	14.8	18.0
Ecosystem											
Razer	1337 HK	2,504	2.18	1.6	1.3	41.4	21.3	4.1	3.5	9.4	15.8
Sea	SE US	134,685	256.82	15.5	10.8	-	-	59.9	71.6	-48.5	-41.0
Apple	AAPL US	2,100,806	125.89	5.9	5.7	24.4	23.6	34.1	28.4	129.0	130.2
Google	GOOG US	1,624,247	2451.76	8.3	7.1	25.3	22.9	6.6	5.6	25.7	23.5
Alibaba	BABA US	593,789	219.02	5.4	4.1	21.4	21.3	3.8	3.3	19.0	14.9
Tencent	700 HK	742,727	600.50	8.0	6.7	33.5	27.0	5.6	4.6	18.4	18.3
Peers Avg.				8.6	6.9	26.1	23.7	22.0	22.7	28.7	29.2
Peers Median				8.0	6.7	24.8	23.3	6.6	5.6	19.0	18.3

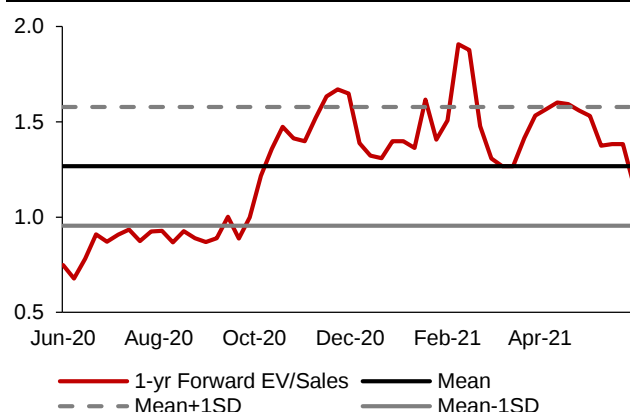
Source: Bloomberg and CMBIS, as of 7 Jun 2021.

Figure 68: 12M forward P/E band

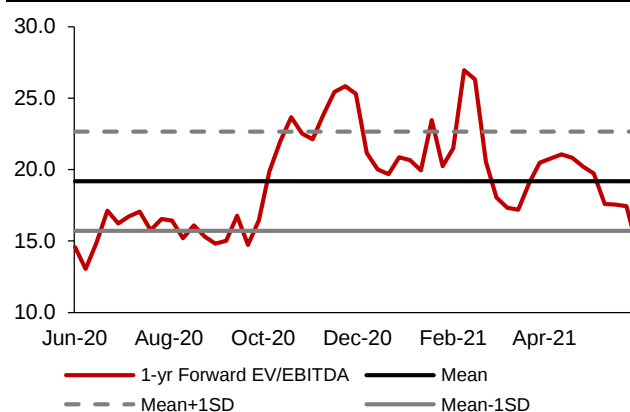
Source: Company data, CMBIS estimates

Figure 69: 12M forward P/B band

Source: Company data, CMBIS estimates

Figure 70: 12M forward EV/Sales band

Source: Company data, CMBIS estimates

Figure 71: 12M forward EV/EBITDA band

Source: Company data, CMBIS estimates

Potential risks include 1) macro economy uncertainty; 2) quicker than expected control of virus and early resume of work; 3) longer disruption in supply chain and severer shortage in PC component; 4) intense competition from peers with lower margin and 5) stronger regulation for its fintech business and increased difficulty in obtaining/renewing payment/banking licenses.

Key Investment Risk

Risks related to industry competition

Razer and Logitech are currently the top two brands on gaming peripheral market. However, there is increasing interests from other peripheral makers/PC providers in enhancing their presence in this gaming hardware industry. For example, in June 2021, HP Inc. announced the completion of the acquisition of HyperX, the gaming division of Kingston Tech, with the purchase price of \$425mn. The acquired product lines include headsets, keyboard, mice, mouse pads, USB microphone, and console accessories. As HP has a strong presence in PC market (No.2), it may help its peripheral business expansion, which may increase the competitiveness in gaming hardware industry.

Slower-than-expected gross margin improvement pressuring Razer's net profit or its sustainability to stay in profit

We expect Razer's profitability to be strengthened this year. But there is risk that Razer's margin will face downward pressure if 1) the competition among peers is intensified 2) the shortage of chips continues and 3) the price of GPU grows higher driven by cryptocurrency mining activities.

People returning to work earlier than expected with non-sustained changing of behaviors

Although there is no sign of Covid-19 to be well controlled in short-term, we cannot underestimate the development of vaccine solutions. There is potential risks that people will return to work as normal earlier than our expectation and the changing behavior (increasing gaming/streaming time and enhanced player stickiness) is not sustainable. However, we believe such risk is minimal (please refer to the section "Positive outlook despite of people returning to work").

Unable to scale up its Fintech business as competition intensified among international/regional players

There are hurdles in the development of ecommerce in SEA, such as 1) weak technology adoption and 2) highly fragmented nature in cultures, regulations, infrastructures and payment preference. It increases the difficulty in scaling up payment business for new entrants, especially for those without localization. We think the great success of Alipay and Wechat pay in China may be difficult to replicate in SEA without heavy subsidy. However, although Razer is a debt-free company, we think it is unlikely for Razer to use heavy subsidy to gain share and it may have negative impact in Razer's future TPV growth of its B2C business.

Financial Summary

Income statement

YE 31 Dec (US\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	821	1,215	1,552	1,913	2,306
COGS	-653	-944	-1,156	-1,410	-1,680
Gross Profit	168	271	396	503	626
SG&A	-202	-213	-264	-297	-348
R&D expense	-52	-54	-70	-73	-92
Other opex	-10	-11	0	0	0
Operating profit	-96	-7	62	134	186
Other non-operating exp.	6	4	5	6	7
Interest income	13	9	10	10	12
Finance costs	-1	-1	-1	-1	-2
Pre-tax profit	-78	4	76	148	203
Income tax expenses	-6	-4	-15	-30	-41
Net profit	-83	1	60	118	162
Non-controlling interests	1	-5	1	1	2
Net profit to shareholders	-84	6	60	117	161
Adj. EBITDA	-29	45	104	180	236

Cash flow summary

YE 31 Dec (US\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net profit	-83	1	76	148	203
D&A	24	23	26	30	34
SBC expense	30	16	16	16	16
Change in working capital	-8	90	22	-15	46
Others	-1	24	-11	-27	-35
Net cash from operating	-38	153	128	152	264
Capex	-16	-26	-34	0	0
Other	6	-145	11	-33	-49
Net cash from investing	-10	-171	-22	-33	-49
Share	-32	-13	-47	-28	-18
Dividend paid	-0	-0	0	0	0
Other	-6	11	-4	-5	-6
Net cash from financing	-38	-3	-51	-33	-24
Net change in cash	-86	-21	55	87	191
Cash, beginning	615	528	509	563	650
Exchange difference	-1	1	0	0	0
Cash, end	528	509	563	650	841

Balance sheet

YE 31 Dec (US\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Current assets	848	1,043	1,175	1,300	1,596
Cash & equivalents	528	509	563	650	841
Trade & other receivables	215	268	328	354	430
Inventories	75	125	141	152	179
Other current assets	30	141	143	144	146
Non-current assets	147	200	205	217	244
PPE	30	30	31	37	47
Intangibles & GW	105	91	85	82	79
Other non-current assets	12	79	88	97	118
Total assets	995	1,243	1,379	1,516	1,840
Current liabilities	402	621	723	753	910
Trade & other payables	378	584	683	708	857
Customer funds	13	20	22	25	30
Other current liabilities	11	16	18	20	24
Non-current liabilities	18	15	19	20	26
Lease liabilities	10	7	8	10	12
Other non-current liabilities	8	8	11	10	14
Total liabilities	420	636	742	773	936
Total equity	575	607	637	743	904
Share capital	89	89	90	93	95
Share premium	684	673	624	594	574
Reserves	-205	-179	-104	30	206
Minority interests	7	25	26	27	29
Total liabilities and equity	995	1,243	1,379	1,516	1,840

Key ratios

YE 31 Dec (US\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue by segment					
Peripherals	445	773	1,044	1,253	1,478
Systems	269	310	342	427	512
Software/Services/Fintec	77	128	167	234	315
Others	30	2	0	0	0
Total	821	1,215	1,552	1,913	2,306
Growth (%)					
Revenue	15.2%	48.0%	27.8%	23.3%	20.5%
Adj. EBITDA	62.7%	-151.6%	233.3%	172.8%	131.4%
Net profit	-13.2%	-106.7%	963.6%	95.9%	37.0%
Profit & loss ratio (%)					
Gross margin	20.5%	22.3%	25.5%	26.3%	27.1%
EBITDA margin	-3.6%	3.7%	6.7%	9.4%	10.2%
Net profit margin	-10.3%	0.5%	3.9%	6.1%	7.0%
Balance sheet ratio					
Net debt/total equity (%)	-91.9%	-83.8%	-88.4%	-87.4%	-93.1%
Cash conversion cycle (days)	-75.1	-74.5	-87.9	-76.9	-71.9
Profitability (%)					
ROE	-14.6%	0.9%	9.4%	15.8%	17.8%
ROA	-8.5%	0.5%	4.3%	7.7%	8.7%
Per share data (RMB)					
EPS	-0.010	0.001	0.007	0.013	0.018
DPS	0.066	0.066	0.069	0.081	0.098

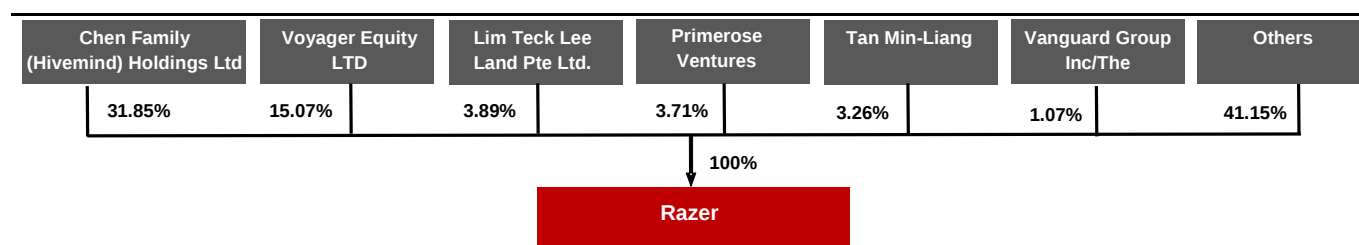
Source: Company data, CMBIS estimates

Appendix 1 – Business milestone

Year	Milestone
2005	Founding of our Company and establishment of our dual global headquarters in San Diego, California and Singapore. Launch of flagship gaming mouse.
2007	Launch of flagship gaming keyboard.
2009	Redesignation of our global co-headquarters from San Diego, California to San Francisco, California.
2010	Establishment of our China regional headquarters in Shanghai. Completion of the Series A Preferred Shares investments. Launch of flagship gaming headset.
2011	Opening of R&D center in Taipei.
2012	Launch of software platform initiative with Razer Synapse IoT platform. Launch of flagship gaming laptop.
2014	Launch of Razer Cortex.
2015	Completion of the Series B Preferred Shares investments. Opening of first three RazerStores in Taipei, Manila and Bangkok. Acquired certain assets of OUYA, Inc. Launch of Razer Music initiative. Launch of Razer Chroma.
2016	Completion of the Series C Preferred Shares investments. Acquisition of certain assets from SST. Opening of fourth and fifth RazerStores in San Francisco and Shanghai. Launch of zVentures.
2017	Acquisition of certain assets. Launch of services initiative with Razer zGold. Completion of the MOL Global investment. Completion of Series D Preferred Shares investments. Opening of sixth RazerStore in Hong Kong. Announcement of partnership with CK Hutchison's Three Group. Launch of Razer Phone. Completed our initial public offering on the Stock Exchange of Hong Kong.
2018	Launch of Razer Fintech.
2020	Turned profitable ahead of all expectations.

Source: Company filings

Appendix 2 – Shareholding structure



Source: Company data, Bloomberg and CMBIS

Appendix 3 – Key management

Name	Date of joining	Age	Position Title	Experience
Mr. Min-Liang Tan	2006/09	43	Co-founder; CEO; Executive Director and Chairman of the Board	Prior to the founding of Razer in 2005, Mr. Tan was an attorney at Rajah & Tann, a law firm in Singapore. Mr. Tan obtained a bachelor's degree in law from the National University of Singapore in August 2002.
Ms. Liu Siew Lan Patricia	2016/08	56	Chief of Staff	Prior to joining Razer, Ms. Liu serves as the Managing Director (Asia Pacific) of Omega Engineering, various position in Hewlett Packard for 15 years. Ms. Liu holds a bachelor of business administration from the National University of Singapore and an executive diploma in board directorship from Singapore Management University.
Mr. Tan Chong Neng	2017/11	47	CFO	A finance veteran of more than 20 years, Mr. Tan was the Group CFO of the Tri-Star Group prior to joining Razer. He also served as the COO and CFO of Stanley Security Solutions in Asia Pacific. Prior to this, Mr. Tan spent 10 years in United Technologies Corporation. Mr. Tan holds a MBA degree from Manchester Business School and a bachelor of accountancy from Nanyang Technological University.
Mr. Khaw Kheng Joo	2009/10	72	COO	Mr. Khaw served as the CEO of MediaRing Ltd (2002-2009). He was the president of Omni Electronics and senior vice president of Celestica Inc (2000-2002). Mr. Khaw previously spent 26 years at Hewlett-Packard. Mr. Khaw obtained a diploma in electronic and communication engineering from Singapore Polytechnic in 1973, a bachelor's degree in electrical and computer engineering from Oregon State University in 1982 and a master's degree in business administration from Santa Clara University in 1987.
Mr. Choo Wei Pin	2015/01	49	Chief Legal and Compliance Officer	Mr. Choo was admitted as an advocate and solicitor of the Supreme Court of the Republic of Singapore in May 1998 and has more than 19 years of experience as a legal practitioner. He graduated from the University of Leicester with a bachelor's degree in law in 1996 and completed the Master of Business Administration program at The Anderson School at the University of California, Los Angeles in 2002.
Mr. Li Meng Lee	2018/03	43	Chief Strategy Officer; CEO of Razer Fintech	Mr. Lee brings over 16 years of corporate finance experience in M&A, as well as capital markets advisory and an invaluable network of contacts. Mr. Lee has been Razer's trusted advisor over the years through his involvement in Razer's fundraising efforts and as a key banker for Razer's IPO in 2017. Mr. Lee holds a bachelor of science degree in industrial engineering and operations research from Columbia University, New York.
Mr. Lim Kaling	2012/11	57	Non-Executive Director; a member of the Nomination Committee; founding investor; Board member	Mr. Lim worked at Slot Speaker Technologies, Inc. as the CEO and chairman from 2012. He has over 33 years of experience in PE and as a seed investor. Currently, Mr. Lim is the chairman of his 100-year old family business, Lim Teck Lee Pte Ltd. He obtained a bachelor of science in business administration from the University of California, Berkeley in 1983.

Source: Company data, CMBIS

Appendix 4 – Razer's gaming products are among top of editors pick via different channels

Laptops	PCGamer	CNET	Tom's hardware
#1	Razer Blade 15	Razer Blade Pro 17	MSI GE66 Raider
#2	Dell G3 15	Dell G5 15	Asus ROG Zephyrus G14
#3	Asus TUF Gaming A15	Acer Nitro 5	Razer Blade 15 Advance Model
#4	Asus ROG Strix Scar 17	Asus ROG Zephyrus G14	Alienware m17 R4
#5	MSI GS66 Stealth	Razer Blade 15 Advanced	Acer Nitro 5
#6	Asus ROG Zephyrus G14	Asus ROG Flow X13 with XG Mobile	Alienware Area-51m
#7	Gigabyte Aorus 15G XC	Origin PC Eon17-X	Asus ROG Strix Scar 17 G733
#8	Acer Predator Helios 300	Acer Predator Triton 900	Asus ROG Zephyrus Do 15 SE GX551

Source: PCGamer, CNET, Tom's hardware, CMBIS

Mice	PCGamer	PCmag	Tom's hardware
#1	Razer Deathadder V2	HyperX Pulsefire Haste Gaming Mouse	Razer Basilisk V2
#2	Logitech G203 Lightsync	Razer Basilisk Ultimate Wireless Gaming Mouse	Logitech G502 Lightspeed
#3	Razer Naga Pro	Razer Viper Ultimate Wireless Gaming Mouse	Razer DeathAdder V2 Pro
#4	Corsair Ironclaw RGB	Corsair Dark Core RGB Pro SE Wireless Gaming Mouse	Corsair Katar Pro XT
#5	Steelseries Sensei 310	Corsair Ironclaw RGB Wireless	Glorious Model D-
#6	Razer Viper Ultimate Wireless	Corsair Sabre RGB Pro Champion Series Gaming Mouse	Corsair Ironclaw RGB
#7	Logitech G Pro Wireless	HP Omen Photon	Razer Basilisk Ultimate
#8	-	HP Omen Vector Wireless Gaming Mouse	HK Gaming Mira-M
#9	-	Logitech G502 Lightspeed Wireless Gaming Mouse	Razer Naga Trinity
#10	-	Razer Naga Pro Wireless Gaming Mouse	Glorious Model O

Source: PCGamer, PCmag, Tom's hardware, CMBIS

Keyboards	PCGamer	PCmag	Tom's hardware
#1	Corsair K100 RGB Optical	Corsair K70 RGB TKL Champion Series Gaming Keyboard	Patriot Viper V765
#2	Mountain Everest Max	Fnatic Streak65 Gaming Keyboard	Cooler Master CK552
#3	Razer Cynosa Chroma	Kinesis TKO Gaming Keyboard	Corsair K70 RGB TKL
#4	G.Skill KM360	Asus ROG Falchion Wireless Gaming Keyboard	Razer BlackWidow V3 Pro
#5	Logitech G915 Lightspeed	Razer Huntsman V2 Analog Optical Gaming Keyboard	HyperX Alloy Origins
#6	HyperX Alloy Elite RGB	Asus ROG Strix Scope TKL Electro Punk	Corsair K100 RGB
#7	Kinesis Freestyle Edge RGB	Corsair K100 RGB Gaming Keyboard	Hexgears Impulse
#8	Razer Huntsman Elite	HyperX Alloy Origins 60 Gaming Keyboard	Razer Huntsman
#9	SteelSeries Apex Pro	HyperX Alloy Elite 2	Corsair K95 RGB Platinum XT
#10	-	Razer Huntsman Mini	SteelSeries Apex Pro

Source: PCGamer, PCmag, Tom's hardware, CMBIS

Headsets	PCGamer	CNET	PCmag
#1	Razer Blackshark V2	Corsair HS70 Bluetooth gaming headset	Razer Blackshark V2
#2	HyperX Cloud II Wireless	SteelSeries Arctis 9X	Audeze Penrose
#3	Razer Thresher Ultimate	Meters Level Up	JBL Quantum 800
#4	Steelseries Arctis 9X	Razer BlackShark V2	Logitech G Pro X Gaming Headset
#5	Razer Kraken X	HyperX Cloud 2 wireless	Razer Nari Essential
#6	Creative SXFI Gamer	Microsoft Xbox Wireless Headset	Astro Gaming A20 Wireless Gen 2 Headset
#7	Astro A03 In-ear Monitors	Logitech G733 LightSpeed	Astro Gaming A50 Wireless Headset + Base Station
#8	-	SteelSeries Arctis 7X	HyperX Cloud II Wireless
#9	-	-	Razer BlackShark V2 Pro

Source: PCGamer, CNET, PCmag, CMBIS

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