

Razer Inc. (1337 HK)

Update on 4Q21E/FY22E forecasts

Razer's peers have announced mixed 3Q21 result, given margin impact on supply chain and logistic issues. Our view on Razer is still positive given that greater demand in 2H21E due to back-to-school and holiday sales. However, we think global supply chain constraints will put pressure on margin in 2H21E and we trimmed our GPM for FY21E. Looking forward, we remain optimistic for Razer and believe the Company can deliver higher-than-peers growth. **Maintain BUY rating with our TP raised to HK\$3.47, based on 1.5x FY23E EV/Sales.**

- **Razer is a key beneficiary of robust expansion of gaming industry.** Global gaming peripheral market grew 45% YoY in 2020 and we believe the market will continue growing post-pandemic, driven by change of working/playing lifestyle and increasing demand for streaming/gaming. Razer is expected to ride this tailwind and outperform its peers with higher sales growth. Razer's peripheral sales grew 73.8%/104.1% YoY in FY20/1H21 vs. Logitech's 36.0%/43.7%, Corsair grew 55.2%/45.5% YoY and Turtle beach grew 53.5%/49.6% YoY, respectively. As Razers' peers 3Q results showed pressure on growth and margin, we trimmed our FY21E NPM by 0.4ppt.
- **We remain positive on Razer.** Looking forward, we are optimistic about FY22E/23E growth, given positive market outlook and the Company's leading market share in gaming peripheral, especially in the U.S. and Europe. We also saw PC brands buy into the idea that peripherals are attractive, as HP acquired HyperX for US\$425mm in Feb 2021. Razer is expected to deliver high-than-peers growth in FY22E/23E, underpinned by expansion in product categories and sales channels. During the Singles' Day event, Razer saw strong sales across multiple product lines. Given the robust growing trend, we expect Razer's total revenue will grow at 23.5%/15.8% YoY in FY22E/23E.
- **Maintain BUY rating with new TP of HK\$3.47 (24% upside).** We maintain BUY rating with new TP of HK\$3.47 based on 1.5x rollover FY23E EV/Sales (vs prior SOTP-based valuation), which implied 18.0x 2023E EV/EBITDA. We think EV/Sales valuation can better reflect Razer's stronger sales growth potential than its peers. Potential risks include: 1) uncertainty in macro economy growth; 2) prolonged supply chain constraints; 3) intensified competition in hardware.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (US\$ mn)	820.8	1,214.6	1,576.8	1,947.0	2,254.9
YoY growth (%)	15.2%	48.0%	29.8%	23.5%	15.8%
Gross margin (%)	20.5%	22.3%	25.2%	27.5%	28.0%
EBITDA (US\$ mn)	-71.7	16.1	74.5	139.8	188.2
Net profit (US\$ mn)	-84.2	5.6	50.4	99.9	138.6
Net profit margin (%)	-10.3%	0.5%	3.2%	5.1%	6.1%
EPS (US\$)	-0.010	0.001	0.006	0.011	0.016
Consensus EPS (US\$)	-	-	0.007	0.011	0.015
PE (x)	-	560.4	62.4	31.6	22.9
EV/EBITDA(x)	-44.4	197.5	42.7	22.8	16.9
ROE (%)	-14.6%	0.9%	8.0%	13.7%	15.8%
Net debt/total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$ 3.47
(Previous TP	HK\$ 3.00)
Up/Downside	+24%
Current Price	HK\$ 2.79

China Technology Sector

Lily Yang, Ph.D
 (852) 3916 3716
 lilyyang@cmbi.com.hk

Alex Ng
 (852) 3900 0881
 alexng@cmbi.com.hk

Lana Lin
 (852) 3761 9097
 lanalin@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	24,440
Avg 3 mths t/o (HK\$ mn)	69
52w High/Low (HK\$)	3.36/1.5
Total Issued Shares (mn)	8,759.8

Source: Bloomberg

Shareholding Structure

Chen Family Hivemind Holdings	32.4%
Voyager Equity	15.33%
Lim Teck Lee Land Pte	3.77%

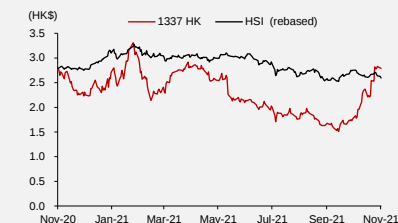
Source: Company data

Share Performance

	Absolute	Relative
1-mth	58.2%	65.6%
3-mth	59.1%	58.4%
6-mth	9.8%	25.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

Regarding reports on potential transaction of privatization

Multiple media recently reported that Razer is in discussion with financial investors that may lead to a potential management buyout backed by PE funds. However, Razer's Board clarified on 16 Nov that there was no certainty that the discussion will ultimately lead to agreement on any potential transaction. We believe the ongoing discussion is preliminary.

We conducted some research based on the previous privatization transactions in related sectors on HKEX in the past 2 years. The premium varied widely, with average 1D/30D/90D premium of 38%/47%/60%. As stated in the Company's announcement, there is no certainty a potential transaction will be reached and no decision has been made.

Figure 1: Previous privatization transactions on HKEX

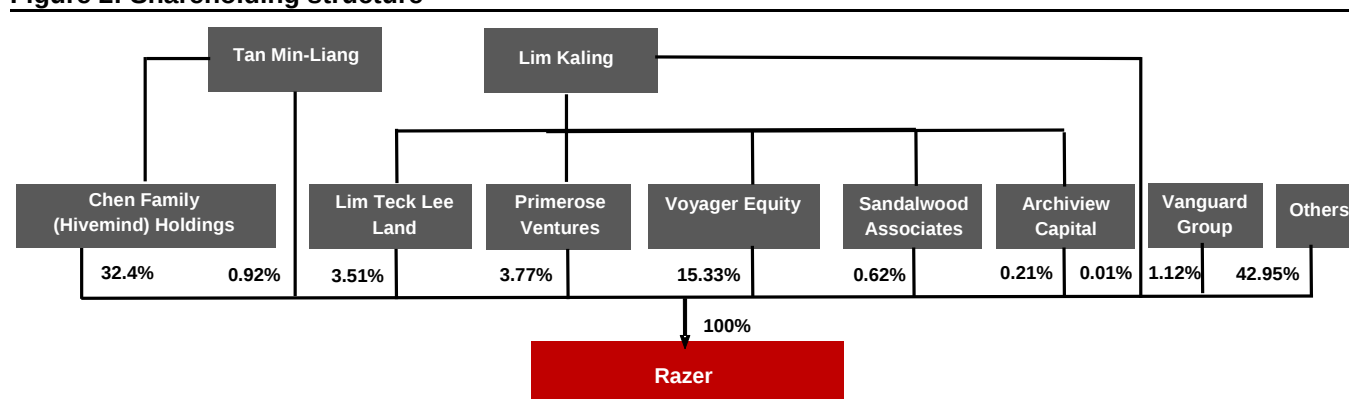
Privatization Target	Announce -ment	Ownership Acquirer group%	Offer price premium%			Deal value (HK\$m)	TTM TV/EBITDA
			Prev. close	30-days	90-days		
Tonly Electronics (1249 HK)	30/10/2020	74.7%	19.0%	28.0%	35.8%	1,271.3	6.9x
AVIC International (161 HK)	02/10/2019	72.0%	29.1%	81.3%	100.2%	839.0	0.5x
Leyou Technologies (1089 HK)	27/08/2020	69.2%	4.5%	8.3%	25.0%	10,272.3	24.1x
Capxon Int'l Electronic (469 HK)	05/06/2020	44.4%	79.1%	88.1%	76.0%	150.0	2.6x
O-Net Technologies (877 HK)	08/07/2020	55.0%	23.6%	24.6%	34.3%	2,439.0	18.6x
TPV Technology (903 HK)	12/08/2019	49.0%	41.4%	54.5%	86.3%	4,360.1	NA
Elec & Eltek Int'l (1151 HK)	03/04/2020	75.9%	70.5%	40.6%	NA	891.0	NA
Average		62.9%	38.2%	46.5%	59.6%	2,889.0	10.5x
Median		69.2%	29.1%	40.6%	55.9%	1,271.3	6.9x

Source: Bloomberg, CMBIS estimates

Shareholding structure and recent transactions

As of 29 October 2021, Mr. Tan is interested in 3,009mn shares representing approximately 34.35% of the issued Shares, and Mr. Lim is interested in 2,055mn shares representing approximately 23.46% of the issued Shares. Mr. Tan and Mr. Lim are interested in a total of 57.81% of the issued Shares.

Figure 2: Shareholding structure



Source: Company data, Bloomberg and CMBIS

Figure 3: Top 10 external shareholders of Razer

External Holder	Position	Latest change	Filing date	%out
Vanguard Group	98,169,001	-14,019,965	31/10/2021	1.12
Swedbank AB	85,000,000	0	29/10/2021	0.97
Norges Bank	49,764,974	4,682,195	31/12/2020	0.57
HSBC Holdings	39,938,000	0	31/7/2021	0.46
Dimensional Fund Advisors	24,444,875	23,613,875	30/9/2021	0.28
China Asset Management	22,797,000	22,797,000	30/6/2021	0.26
Teachers Insurance & Annuity Assoc.	15,535,000	-12,485,000	30/9/2021	0.18
Roundhill Financial	10,122,000	0	17/11/2021	0.12
Blackrock	9,744,559	-127,366	17/11/2021	0.11
ETF Managers Group	7,150,537	0	17/11/2021	0.08

Source: Bloomberg, CMBIS estimates

Figure 4: Notable insider transactions of the past 12 months

Trade Date	Participants	Net Sell (shares)	Net Buy (shares)	Close price	Volume
30/09/2021	Tan Chong Neng		476,218	1.59	11,805,000
30/06/2021	Tan Chong Neng		43,885	2.11	20,309,000
07/06/2021	Min-Liang Tan	(275,000,000)		2.18	55,829,000
21/05/2021	Lim Teck Lee Lnd	(6,706,000)		2.55	6,627,000
29/04/2021	Archiview Capital	(2,063,000)		2.84	23,025,000
01/04/2021	Min-Liang Tan		66,749,000	2.7	24,374,000
31/12/2020	Min-Liang Tan		1,595,000	2.38	25,419,000

Source: Bloomberg, CMBIS estimates

Earnings Revision

We trimmed our FY21E margin due to concerns of supply chain and logistic issues. We also lowered the following years' margin given Company's reinvestment plan to boost sales and strengthen market positions.

Figure 5: CMBIS earnings revisions

US\$m	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	1,577	1,947	2,255	1,577	1,965	2,312	0%	-1%	-2%
Gross profit	398	535	632	427	550	664	-7%	-3%	-5%
EBITDA	75	140	188	82	149	205	-9%	-6%	-8%
Net profit	50	100	139	56	109	152	-10%	-8%	-9%
EPS (RMB)	0.01	0.01	0.02	0.01	0.01	0.02	-4%	-6%	-8%
Gross Margin	25.2%	27.5%	28.0%	27.1%	28.0%	28.7%	-1.9 ppt	-0.5 ppt	-0.7 ppt
EBITDA Margin	4.7%	7.2%	8.3%	5.2%	7.6%	8.8%	-0.5 ppt	-0.4 ppt	-0.5 ppt
Net Margin	3.2%	5.1%	6.1%	3.6%	5.6%	6.6%	-0.4 ppt	-0.4 ppt	-0.4 ppt

Source: Company data, CMBIS estimates

Figure 6: CMBIS estimates vs consensus

US\$m	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	1,577	1,947	2,255	1,518	1,793	2,093	4%	9%	8%
Gross profit	398	535	632	411	502	601	-3%	7%	5%
EBITDA	75	140	188	96	150	209	-23%	-7%	-10%
Net profit	50	100	139	55	97	143	-8%	3%	-3%
EPS (RMB)	0.006	0.011	0.016	0.007	0.011	0.015	-18%	0%	4%
Gross Margin	25.2%	27.5%	28.0%	27.1%	28.0%	28.7%	-1.9 ppt	-0.5 ppt	-0.7 ppt
EBITDA Margin	4.7%	7.2%	8.3%	6.3%	8.4%	10.0%	-1.6 ppt	-1.2 ppt	-1.6 ppt
Net Margin	3.2%	5.1%	6.1%	3.6%	5.4%	6.8%	-0.4 ppt	-0.3 ppt	-0.7 ppt

Source: Bloomberg, CMBIS estimates

Financials

Figure 7: Major assumptions

US\$ mn	FY19	FY20	1H21	2H21E	FY21E	FY22E	FY23E
Peripherals	445	773	516	567	1,083	1,353	1,556
...YoY	4%	74%	104%	9%	40%	25%	15%
Systems	269	310	162	180	342	393	452
...YoY	45%	15%	24%	0%	10%	15%	15%
Services	77	128	73	78	151	201	247
...YoY	55%	67%	14%	21%	18%	33%	23%
Others	30	2	2	0	2	0	0
...YoY	-37%	-92%	-	-	-	-	-
Total	821	1,215	752	825	1,577	1,947	2,255
...YoY	15%	48%	68%	8%	30%	23%	16%
Gross Margin							
Peripherals	26.4%	26.9%	31.4%	28.7%	30.0%	32.0%	32.5%
Systems	9.8%	3.3%	6.3%	1.9%	4.0%	6.0%	6.5%
Services	42.4%	43.8%	41.9%	37.2%	39.5%	39.2%	39.1%
Others	-28.6%	-153.7%	48.5%	-	-	-	-
Total	20.5%	22.3%	27.1%	23.6%	25.2%	27.5%	28.0%

Source: Company data, CMBIS estimates

Figure 8: P&L forecast

US\$ mn	FY19	FY20	1H21	2H21E	FY21E	FY22E	FY23E
Revenue	821	1,215	752	825	1,577	1,947	2,255
...YoY	15.2%	48.0%	68.0%	7.5%	29.8%	23.5%	15.8%
Gross profit	168	271	204	194	398	535	632
GPM (%)	20.5%	22.3%	27.1%	23.6%	25.2%	27.5%	28.0%
SG&A	(202)	(213)	(133)	(148)	(281)	(343)	(388)
...% of rev	-24.6%	-17.5%	-17.7%	-17.9%	-17.8%	-17.6%	-17.2%
R&D	(52)	(54)	(31)	(36)	(66)	(82)	(90)
...% of rev	-6.4%	-4.4%	-4.1%	-4.3%	-4.2%	-4.2%	-4.0%
Operating profit	(96)	(7)	40	11	51	111	154
OPM (%)	-11.7%	-0.6%	5.3%	1.3%	3.2%	5.7%	6.8%
...YoY	-3.8%	-92.7%	-335.2%	11.0%	-832.0%	117.3%	38.5%
Net profit	(84)	6	34	16	50	100	139
NPM (%)	-10.3%	0.5%	4.5%	2.0%	3.2%	5.1%	6.1%
...YoY	-13.2%	-106.7%	-295.9%	-28.4%	796.3%	98.1%	38.8%

Source: Company data, CMBIS estimates

Valuation

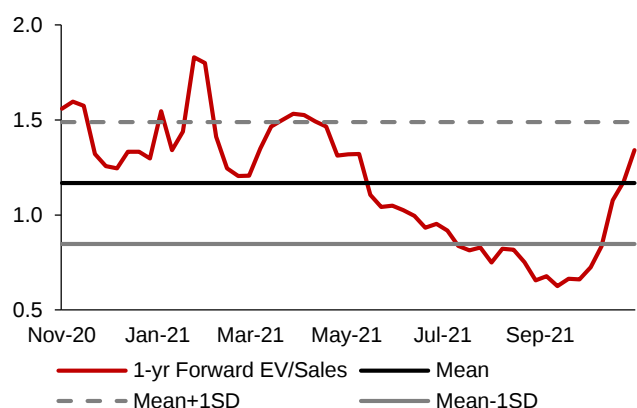
Maintain with BUY rating with new TP of HK\$ 3.47 (24% upside)

We estimate 20% revenue CAGR, 26% gross profit CAGR and 65% EPS CAGR during FY21-23E. We think Razer's core hardware business will continue to have strong momentum and expect the new investment plan to strengthen its payment gateway business in SEA.

We maintain BUY rating with new TP of HK\$3.47 based on 1.5x FY23E EV/Sales, implied 18.0x 2023E EV/EBITDA. We switched valuation methodology from SOTP-based valuation to EV/Sales valuation as we think it can better reflect Razer's faster growth and sales potential. Logitech is trading at 14.6x FY23E EV/EBITDA but we think the valuation is justified given that Razer is expected to have much higher growth than its peers in the upcoming years. As Razer just turned profitable and margin is still improving, we believe this valuation is more justified than PE multiples.

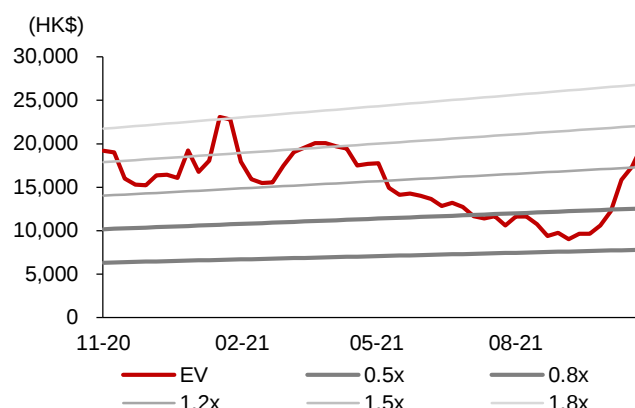
Potential risks include: 1) uncertainty in macro economy; 2) supply chain constraints; 3) intensified competition in hardware and 4) cool off of the talk on potential transaction.

Figure 9: 12M forward EV/Sales chart



Source: Company data, Bloomberg, CMBIS estimates

Figure 10: 12M forward EV/Sales band



Source: Company data, Bloomberg, CMBIS estimates

Figure 11: Peers valuation

Figure 21-1: Core Validation

Company	Ticker	MktCap US\$(mn)	Price (LC)	EV/EBITDA		EV/Sales		ROE (%)	
				FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Peripherals									
Razer	1337 HK	3,193	2.84	19.4	14.4	1.4	1.2	13.7	15.8
Logitech	LOGI US	14,025	81.02	15.2	14.6	2.4	2.3	29.4	27.2
Corsair	CRSR US	2,252	23.87	11.4	9.6	1.2	1.1	43.5	41.0
Turtle Beach	HEAR US	435	27.13	8.3	7.3	1.0	1.0	-	-
Peers Avg.				11.6	10.5	1.6	1.5	36.4	34.1
Peers Median				11.4	9.6	1.2	1.1	36.4	34.1
System									
Razer	1337 HK	3,193	2.84	19.4	14.4	1.4	1.2	13.7	15.8
Micro-star	2377 TT	4,893	161.00	6.4	6.6	16.5	15.7	31.8	29.2
Dell	DELL US	42,181	55.13	6.7	7.5	0.8	0.8	110.1	68.8
HP	HPQ US	36,800	31.93	6.4	6.9	0.7	0.7	-85.8	-60.6
Lenovo	992 HK	12,116	7.84	3.3	3.4	0.2	0.2	41.1	31.8
Asustek	2357 TT	9,431	353.00	6.3	6.9	12.7	12.2	13.9	12.2
Acer	2353 TT	2,981	26.95	4.9	4.9	5.5	5.3	12.1	11.6
Apple	AAPL US	2,641,758	161.02	21.3	20.4	6.8	6.4	137.8	126.4
Peers Avg.				7.9	8.1	6.2	5.9	37.3	31.4
Peers Median				6.4	6.9	5.5	5.3	31.8	29.2
Services									
Razer	1337 HK	3,193	2.84	19.4	14.4	1.4	1.2	13.7	15.8
Adyen	ADYEN NA	84,306	2459.00	82.2	59.8	46.3	34.2	30.7	30.5
Paypal	PYPL US	222,626	189.48	26.0	20.8	7.2	6.0	23.3	24.6
Square	SQ US	97,472	211.31	89.7	56.8	5.1	4.2	19.8	26.4
Affirm	AFRM US	34,707	123.51	-	-	26.6	18.3	-27.7	-26.5
GHL	GHLS MK	523	1.92	21.0	17.1	18.2	15.5	8.9	10.7
Yeahka	9923 HK	1,505	25.95	15.1	9.4	11.6	8.3	11.7	16.5
Lakala	300773 CH	3,066	24.47	7.3	6.0	10.7	9.0	22.2	23.3
Peers Avg.				40.2	28.3	18.0	13.6	12.7	15.1
Peers Median				23.5	18.9	11.6	9.0	19.8	23.3
Ecosystem									
Razer	1337 HK	3,193	2.84	19.4	14.4	1.4	1.2	13.7	15.8
Sea	SE US	165,905	299.13	491.3	75.8	10.8	8.1	-21.5	1.3
Apple	AAPL US	2,641,758	161.02	21.3	20.4	6.8	6.4	137.8	126.4
Google	GOOG US	1,947,486	2941.57	15.2	13.4	7.5	6.5	25.9	24.8
Alibaba	BABA US	370,365	136.62	11.1	9.2	14.0	11.8	12.1	12.3
Tencent	700 HK	592,315	481.00	18.6	16.1	37.7	32.2	16.3	16.3
Peers Avg.				111.5	27.0	15.4	13.0	34.2	36.2
Peers Median				18.6	16.1	10.8	8.1	16.3	16.3

Source: Bloomberg and CMBIS, as of 23 Nov 2021.

Financial Summary

Income statement

YE 31 Dec (US\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	821	1,215	1,577	1,947	2,255
COGS	-653	-944	-1,179	-1,412	-1,623
Gross Profit	168	271	398	535	632
SG&A	-202	-213	-281	-343	-388
R&D expense	-52	-54	-66	-82	-90
Other opex	-10	-11	0	0	0
Operating profit	-96	-7	51	111	154
Other non-operating exp.	6	4	2	4	7
Interest income	13	9	5	6	7
Finance costs	-1	-1	-1	-2	-2
Pre-tax profit	-78	4	57	119	166
Income tax expenses	-6	-4	-9	-18	-25
Net profit	-83	1	48	101	141
Non-controlling interests	1	-5	-2	2	2
Net profit to shareholders	-84	6	50	100	139
EBITDA	-72	16	75	140	188

Cash flow summary

YE 31 Dec (US\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net profit	-83	1	57	119	166
D&A	24	23	23	29	35
SBC expense	30	16	17	33	27
Change in working capital	-8	90	39	-5	34
Others	-1	24	-2	-14	-17
Net cash from operating	-38	153	134	163	245
Capex	-13	-37	-44	-51	0
Other	3	-134	-25	1	-63
Net cash from investing	-10	-171	-69	-50	-63
Share	-32	-13	-46	-31	-20
Dividend paid	-0	-0	0	0	0
Other	-6	11	-6	-8	-8
Net cash from financing	-38	-3	-52	-39	-28
Net change in cash	-86	-21	14	74	154
Cash, beginning	615	528	509	522	596
Exchange difference	-1	1	0	0	0
Cash, end	528	509	522	596	750

Balance sheet

YE 31 Dec (US\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Current assets	848	1,043	1,074	1,218	1,428
Cash & equivalents	528	509	522	596	750
Trade & other receivables	215	268	253	309	336
Inventories	75	125	153	164	192
Other current assets	30	141	146	148	150
Non-current assets	147	200	267	297	332
PPE	30	30	46	61	75
Intangibles & GW	105	91	85	81	78
Other non-current assets	12	79	137	155	179
Total assets	995	1,243	1,341	1,514	1,760
Current liabilities	402	621	681	752	848
Trade & other payables	378	584	643	710	802
Customer funds	13	20	21	23	27
Other current liabilities	11	16	17	18	19
Non-current liabilities	18	15	34	33	35
Lease liabilities	10	7	24	23	22
Other non-current liabilities	8	8	11	10	13
Total liabilities	420	636	715	784	883
Total equity	575	607	626	730	877
Share capital	89	89	89	90	92
Share premium	684	673	626	594	572
Reserves	-205	-179	-112	20	186
Minority interests	7	25	23	25	27
Total liabilities and equity	995	1,243	1,341	1,514	1,760

Key ratios

YE 31 Dec (US\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue by segment					
Peripherals	445	773	1,083	1,353	1,556
Systems	269	310	342	393	452
Software/Services/Fintec	77	128	151	201	247
Others	30	2	2	0	0
Total	821	1,215	1,577	1,947	2,255
Growth (%)					
Revenue	15.2%	48.0%	29.8%	23.5%	15.8%
Adj. EBITDA	62.7%	-151.6%	204.1%	189.8%	124.7%
Net profit	-13.2%	-106.7%	796.3%	98.1%	38.8%
Profit & loss ratio (%)					
Gross margin	20.5%	22.3%	25.2%	27.5%	28.0%
EBITDA margin	-3.6%	3.7%	5.8%	8.9%	9.6%
Net profit margin	-10.3%	0.5%	3.2%	5.1%	6.1%
Balance sheet ratio					
Net debt/total equity (%)	-89.5%	-82.0%	-79.0%	-78.0%	-82.5%
Cash conversion cycle (days)	-76.3	-75.5	-87.4	-81.7	-78.1
Profitability (%)					
ROE	-14.6%	0.9%	8.0%	13.7%	15.8%
ROA	-8.5%	0.5%	3.8%	6.6%	7.9%
Per share data (RMB)					
EPS	-0.010	0.001	0.006	0.011	0.016
BVPS	0.066	0.066	0.069	0.080	0.096

Source: Company data, CMBIS estimates

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CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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