

Razer (1337 HK)

FY21 result is solid. All eyes on progress of privatization

Razer announced FY21 results. Full year revenue of US\$1.6bn, 33% YoY, in-line with our estimate (+3% diff.) and higher than consensus (+8% diff.). NP to shareholders was US\$46.2mn, which missed our/consensus estimate by 8%/13% due to industry-wide supply chain and logistics challenges. We think Razer will continue to outperform its peers in 2022 given its competitive position in peripherals, large user base (178mn users with 44% YoY growth) and strong growth in service business. As the privatization is still in process, we maintain our TP of HK\$2.82 and HOLD rating.

- Expect FY22 revenue growth to outperform peers.** FY21 revenue of US\$1.6bn was higher than our/consensus estimate by 2.7%/7.7% YoY. Full year rev. growth of 33% was largely driven by strong demand in 1H21 during the pandemic, market share increase for Hardware, and continuous expansion of channels and content for the services business. 2H21 rev grew 13.1% vs. 68.0% in 1H21 due to unusual seasonality caused by the pandemic. We think FY22E growth will slow down due to high base and macro uncertainties. We estimate FY22E rev growth will be 14.5%, which still outgrows its peripheral peers (Logitech's revenue FY22E guidance: 2-5% YoY vs. LT: 8-10% YoY).
- Gross margin under pressure but overall profitability will continue to improve.** Gross profit margin improved to 24.0% in FY21 (vs. 22.3% in FY20), driven by ongoing Hardware margin expansion but partially offset by higher freight cost. Looking forward, logistic and supply chain headwind is likely to remain, at least in 1H22E. We expect margin pressure to ease in 2H22E. We lower our FY22E GPM estimate to 24.5%. NPM improved to 2.9% in FY21 (vs. 0.5% in FY20). We believe a higher NPM at 4.8% is achievable for FY22E given GPM expansion and operating leverage.
- Maintain TP at HK\$2.82.** We maintain TP at HK\$2.82 (the proposed privatization price) as we believe the completion of this transaction is highly possible. Next key date is April 4th, which is the deadline to despatch the Scheme Document required by SFC. Potential risk includes termination of the deal.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue (US\$ mn)	820.8	1,214.6	1,619.6	1,855.0	2,123.2
YoY growth (%)	15.2%	48.0%	33.3%	14.5%	14.5%
Gross margin (%)	20.5%	22.3%	24.0%	24.5%	26.0%
EBITDA (US\$ mn)	-71.7	16.1	80.0	110.0	159.4
Net profit (US\$ mn)	-84.2	5.6	46.2	88.4	147.0
Net profit margin (%)	-10.3%	0.5%	2.9%	4.8%	6.9%
EPS (US\$)	-0.010	0.001	0.005	0.010	0.017
Consensus EPS (US\$)	-	-	0.006	0.012	0.016
PE (x)	-	486.1	58.7	30.7	18.5
EV/EBITDA(x)	-32.9	146.2	29.5	21.4	14.8
ROE (%)	-14.6%	0.9%	8.4%	15.3%	22.1%
Net debt/total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price	HK\$2.82
(Previous TP)	HK\$2.82)
Up/Downside	+16.0%
Current Price	HK\$2.43

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Stock Data

Mkt Cap (HK\$ mn)	21,286
Avg 3 mths t/o (HK\$ mn)	30
52w High/Low (HK\$)	3.1/1.5
Total Issued Shares (mn)	8,759.8

Source: Bloomberg

Shareholding Structure

Chen Family Hivemind Holdings	32.4%
Voyager Equity	15.33%
Primerose Ventures	3.77%

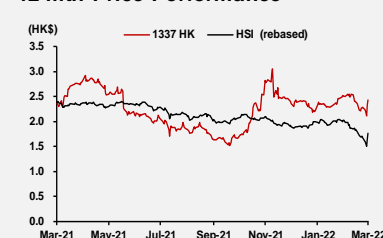
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-7.6%	13.7%
3-mth	-3.3%	13.0%
6-mth	40.6%	72.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

Related Reports

"Razer - Proposed privatization update"
 - 22 Feb 2022 ([Link](#))

Figure 1: Earnings revision

US\$ mn	New		OLD		Diff (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	1,855	2,123	1,947	2,255	-5%	-6%
Gross Profit	455	551	535	632	-15%	-13%
EBITDA	110	159	140	188	-21%	-15%
Net profit	88	147	100	139	-11%	6%
EPS (US\$)	0.01	0.02	0.01	0.02	-11%	7%
Gross Margin	24.5%	26.0%	27.5%	28.0%	-3 ppt	-2 ppt
EBITDA Margin	5.9%	7.5%	7.2%	8.3%	-1.3 ppt	-0.8 ppt
Net Margin	4.8%	6.9%	5.1%	6.1%	-0.4 ppt	0.8 ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

US\$ mn	CMBIGM		Consensus		Diff (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	1,855	2,123	1,817	2,147	2%	-1%
Gross Profit	455	551	506	614	-10%	-10%
EBITDA	110	159	143	203	-23%	-22%
Net profit	88	147	102	147	-13%	0%
EPS (US\$)	0.010	0.017	0.012	0.016	-12%	3%
Gross Margin	24.5%	26.0%	27.8%	28.6%	-3.3 ppt	-2.6 ppt
EBITDA Margin	5.9%	7.5%	7.9%	9.5%	-2 ppt	-2 ppt
Net Margin	4.8%	6.9%	5.6%	6.9%	-0.8 ppt	0.1 ppt

Source: Company data, CMBIGM estimates

Figure XX: Peers' valuation

Company	Ticker	Rating	12m TP (LC)	Price (LC)	Upside/Downside	Mkt. Cap (US\$ mn)	P/E (x)		EV/EBITDA (x)		ROE (%)	
							FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Razer	1337 HK	Buy	2.82	2.43	16%	2,723	30.7	18.5	21.4	14.8	15.3	22.1
Logitech	LOGI US	NR	NR	72.56	NR	12,561	16.2	15.5	12.4	11.9	30.2	28.5
Corsair	CRSR US	NR	NR	20.54	NR	1,955	13.1	10.9	10.0	8.4	29.3	31.4
Turtle Beach	HEAR US	NR	NR	20.19	NR	326	23.4	14.5	7.9	5.7	-	-
Average							17.6	13.6	10.1	8.7	29.8	29.9

Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (US\$ mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	821	1,215	1,620	1,855	2,123
COGS	-653	-944	-1,230	-1,400	-1,572
Gross Profit	168	271	389	455	551
SG&A	-202	-213	-276	-313	-354
R&D expense	-52	-54	-61	-74	-85
Other opex	-10	-11	0	0	0
Operating profit	-96	-7	52	68	113
Other non-operating exp.	6	4	-2	2	6
Interest income	13	9	5	6	7
Finance costs	-1	-1	-3	-2	-2
Pre-tax profit	-78	4	52	75	124
Income tax expenses	-6	-4	-9	13	21
Net profit	-83	1	43	88	146
Non-controlling interests	1	-5	-3	-1	-1
Net profit to shareholders	-84	6	46	88	147
EBITDA	-72	16	80	110	159

Cash flow summary

YE 31 Dec (US\$ mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Net profit	-83	1	43	75	124
D&A	24	23	28	42	47
SBC expense	30	16	12	15	12
Change in working capital	-8	90	-48	214	-201
Others	-1	24	8	18	28
Net cash from operating	-38	153	44	364	10
Capex	-24	-28	-32	-37	0
Other	14	-143	166	9	-30
Net cash from investing	-10	-171	134	-28	-30
Share	-32	-13	-57	-76	-71
Dividend paid	-0	-0	0	0	0
Other	-6	11	-60	-10	-9
Net cash from financing	-38	-3	-117	-85	-80
Net change in cash	-86	-21	61	251	-100
Cash, beginning	615	528	509	568	818
Exchange difference	-1	1	-2	0	0
Cash, end	528	509	568	818	719

Balance sheet

YE 31 Dec (US\$ mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Current assets	848	1,043	1,046	1,227	1,302
Cash & equivalents	528	509	568	818	719
Trade & other receivables	215	268	275	262	347
Inventories	75	125	186	128	216
Other current assets	30	141	16	18	19
Non-current assets	147	200	183	176	169
PPE	30	30	59	59	57
Intangibles & GW	105	91	90	80	71
Other non-current assets	12	79	35	37	41
Total assets	995	1,243	1,229	1,403	1,470
Current liabilities	402	621	643	789	771
Trade & other payables	378	584	600	742	722
Customer funds	13	20	25	28	30
Other current liabilities	11	16	18	19	19
Non-current liabilities	18	15	36	37	35
Lease liabilities	10	7	27	25	24
Other non-current liabilities	8	8	9	12	11
Total liabilities	420	636	679	826	806
Total equity	575	607	549	577	664
Share capital	89	89	88	89	91
Share premium	684	673	616	569	528
Reserves	-205	-179	-159	-87	42
Minority interests	7	25	6	5	3
Total liabilities and equity	995	1,243	1,229	1,403	1,470

Key ratios

YE 31 Dec (US\$ mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue by segment					
Peripherals	445	773	1,084	1,247	1,434
Systems	269	310	368	405	445
Software/Services/Fintec	77	128	163	203	244
Others	30	2	5	0	0
Total	821	1,215	1,620	1,855	2,123
Growth (%)					
Revenue	15.2%	48.0%	33.3%	14.5%	14.5%
Adj. EBITDA	62.7%	-151.6%	215.6%	130.4%	137.1%
Net profit	-13.2%	-106.7%	720.5%	91.5%	66.2%
Profit & loss ratio (%)					
Gross margin	20.5%	22.3%	24.0%	24.5%	26.0%
EBITDA margin	-3.6%	3.7%	5.9%	6.8%	8.1%
Net profit margin	-10.3%	0.5%	2.9%	4.8%	6.9%
Balance sheet ratio					
Net debt/total equity (%)	-89.5%	-82.0%	-97.5%	-136.7%	-103.9%
Cash conversion cycle (days)	-76.3	-75.5	-68.7	-81.7	-78.1
Profitability (%)					
ROE	-14.6%	0.9%	8.4%	15.3%	22.1%
ROA	-8.5%	0.5%	3.8%	6.3%	10.0%
Per share data (US\$)					
EPS	-0.010	0.001	0.005	0.010	0.017
BVPS	0.066	0.066	0.062	0.066	0.076

Source: Company data, CMBIGM estimates

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