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13 Oct, 2022

AdTiger | 01163.HK

COMPANY UPDATE

Unfavourable environment brings a challenging outlook, a low valuation may still be an incentive to maintain "BUY"

STOCK RATING	TARGET PRICE
BUY	HK$ 0.42

AdTiger (01163.HK) reported revenue of RMB 190.5mn in 2022 1H, representing a YoY 32.7% growth when compared to 2021 1H. The growth in the topline was primarily contributed by a recovery in the education and financial segments, the utility and content app developers remained the primary contributor to the Group, accounting for 42.7% of total revenue. However, a 6.6p.p. drop in the gross margin resulted in a YoY 54.0% retreat in the bottom line, representing a 3.3% net margin.

Recovery in particular segments amid the gloomy market: It is encouraging to see a strong recovery in the contribution from the customers engaging in the education and finance industries. AdTiger (01163.HK) successfully obtained some customers from the education industry which was struggling to survive in the crackdown last year, players incline to explore and hence advertise in the overseas market. Besides, the Group also explored the S.E. Asia market by assisting the local financial institutes to advertise globally, leading to a 12.7x rebound in the revenue contributed by the financial customers.

Profit margin remained weak and irreversible in the short-term: 2022 is another challenging year for the advertising companies, the gloomy outlook slashes the demand and hence the budget for marketing. Although we understand that the pricing strategies adopted by the Group are essential to maintain a close business relationship, a squeeze in profit margin is an inevitable consequence of the change in pricing strategies.

Unfavourable environment brings a negative outlook, a low valuation may still be an incentive to maintain "BUY": We appreciate that AdTiger (01163.HK) actively searches for a way to survive in the competitive market, the new technologies can lower the input cost for advertisements, but we believe that the profit margin will remain squeezed due to its pricing strategies. Therefore, we i) maintain our forecasts on the revenue due to the strategies adopted, ii) slash our estimates on the gross margin by 1.0 p.p. - 2.3 p.p., iii) cut our forecasts of the net profit margin and the net profit by 0.9p.p. - 2.0 p.p. and 19.7% - 44.3% respectively. A plunge in the stock price partially reflects the negative outlook, increasing discount rate, and the multiple contraction driven by the disastrous market performance, but we are certain that the current valuation is low enough even if we take the extreme volatility and higher risk premium into consideration. We, thus, maintain the rating "BUY", but we downward adjust the TP to HKD 0.42/share, implying 19.0x/11.5x/8.9x fw. P/E of FY 2022/FY 2023/FY 2024.

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SENIOR ANALYST

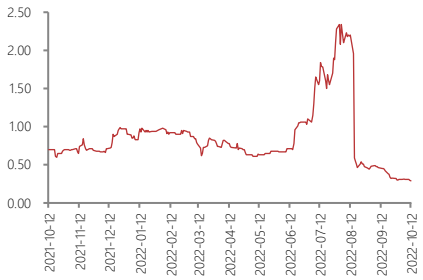
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AdTiger (01163.HK)	
Stock Rating	BUY (BUY)
Target Price (Previous TP)	HK$ 0.42 (HK$1.10)
Current Price	HK$ 0.29
52-Week Range	HK$ 0.27 – 2.52
Market cap. (HKD, bn)	HK$ 0.2

RMB, mn	21(A)	22(E)	23(E)	24(E)
Revenue	351.8	474.7	586.6	686.2
Gross Profit	65.9	74.0	90.7	105.8
Gross Margin	18.7%	15.6%	15.5%	15.4%
Net Profit	11.9	11.8	19.4	25.1
EPS	0.019	0.019	0.031	0.040
P/S	0.4	0.3	0.3	0.2
P/E	122.7	13.0	7.9	6.1
ROE	6.9%	2..6%	6.9%	6.4%

Performance	1 mth	3 mth	6 mth	1 year
Absolute	-37.6%	-81.9%	-62.8%	-58.6%
Relative to HSI	-24.6%	-62.6%	-41.8%	-26.0%



AdTiger (01163.HK) reported revenue of RMB 190.5mn in 2022 1H, representing a YoY 32.7% growth when compared to 2021 1H. The growth in the topline was primarily contributed by a recovery in the education and financial segments, the utility and content app developers remained the primary contributor to the Group, accounting for 42.7% of total revenue. However, a 6.6p.p. drop in the gross margin resulted in a YoY 54.0% retreat in the bottom line, representing a 3.3% net margin.

Recovery in particular segments amid the gloomy market

AdTiger (01163.HK) recorded RMB 190.5mn total revenue in 2022 1H, approximately 42.7% and 28.4% of revenue were generated from customers engaging in the utility and content app development and e-commerce business respectively. The Group reported a mid-to-high single-digit YoY growth in both business segments, the lower contribution from the largest customer, a content App developer whose primary App is too mature to grow, was offset by the contribution from other players.

Fortunately, it is encouraging to see a strong recovery in the contribution from the customers engaging in the education and finance industries. AdTiger (01163.HK) successfully obtained some customers from the education industry which was struggling to survive in the crackdown last year, players incline to explore and hence advertise in the overseas market. Besides, the Group also explored the S.E. Asia market by assisting the local financial institutes to advertise globally, leading to a 12.7x rebound in the revenue contributed by the financial customers.

Profit margin remained weak and irreversible in the short-term

It is, again, another challenging year for the advertising companies this year, the gloomy outlook slashes the demand and hence the budget allocated for marketing. AdTiger (01163.HK), an advertising agency affected by the macro economy, reported a 6.6p.p. plunge in the gross margin in 2022 1H, the 17.3% gross margin slightly missed our estimation and we believe that a drop in the gross margin was primarily dragged by the marketing solutions recognized in a gross basis.

Although we understand that the pricing strategies adopted by the Group are essential to maintain a close business relationship with the customers in a challenging market, a squeeze in profit margin is an inevitable consequence of the change in pricing strategies. Unfortunately, we do not see any favourable signal for the Group to raise the price and hence profit margin in the short-term due to the uncertain outlook, we, hence, cut our estimates on the gross margin by 1.0p.p. – 2.3p.p. for FY 2022 – FY 2024.

A little step forward on the new services provided

AdTiger (01163.HK) did take a step forward in content creation, including AI dubbing, the creation of 3D avatars, and human-like AI character technologies. Those new technologies are getting mature and they can be applied to the solutions provided to the customers.

Exhibit: New technologies developed by AdTiger (01163.HK)

Technologies	Description
AI dubbing	Presentation of product features can be realized through AI dubbing, the wordings input to the software can be read out by an AI audio that is indistinguishable from human voice. The software developed by the Group currently supports more than 70 languages and more than 200 voice characters.
3D avatars	A customized 3D virtual character can be created for animated videos, and the 3D virtual characters can be used to present the product features etc.
Human-like AI characters	It is a technology creating a human-like characters based on the models built from real-life people. For example, a video or animation can be created with a photo of real people, the facial expressions and the tone of voice can be generated by the software developed by the Group.

Source: Company data, West Bull Securities

Exhibit: Examples of the human-like AI characters created by the software of AdTiger (01163.HK)



Source: Company data

Besides, the overseas KOL business and the SaaS service were fairly on track, customers commenced to cooperate with AdTiger (01163.HK) and the KOLs, and the SaaS platform was under development in 2022 1H. Unfortunately, we can't see a material contribution in the short term.

Unfavourable environment brings a negative outlook, a low valuation may still be an incentive to maintain "BUY"

We do appreciate that AdTiger (01163.HK) actively searches for a way to survive in the weak and competitive market, AI dubbing, 3D avatars and Human-like AI characters can effectively lower the input cost for advertisements, but we believe that the profit margin will remain squeezed due to the aggressive pricing strategies. Therefore, we i) maintain our forecasts on the revenue due to the strategies adopted currently, ii) slash our estimates on the gross margin by 1.0 p.p. - 2.3 p.p., iii) cut our forecasts of the net profit margin and the net profit by 0.9p.p. - 2.0 p.p. and 19.7% - 44.3% respectively.

A plunge in the stock price partially reflects the negative outlook, increasing discount rate, and the multiple contraction driven by the disastrous market performance, but we are certain that the current valuation is low enough even if we take the extreme volatility and higher risk premium into consideration. We, thus, maintain the rating "BUY", but we downward adjust the TP to HKD 0.42/share, implying 19.0x/11.5x/8.9x forward P/E of FY 2022/FY 2023/FY 2024.

Peers comparison

		Mkt. Cap. (HKD, mn)	P/E (%)	Fw. P/E (%)	P/B (%)	P/S (%)	Revenue (HKD, mn)	GM (%)	ROE (%)
01351.HK	Bright Future	172.5	-	-	0.5	0.3	588.2	20.0	(5.8)
01860.HK	Mobvista	6,579.2	21.0	51.2	3.3	0.9	5,871.7	16.1	14.7
01948.HK	UJU Holding	1,716.0	5.0	-	1.3	0.2	9,450.9	5.5	34.7
02131.HK	Netjoy	835.4	9.9	5.3	0.5	0.2	3,763.4	7.0	4.7
06988.HK	Joy Spreader	2,941.2	13.9	20.2	1.1	1.4	1,395.9	32.4	8.3
	Average	*2,448.9*	*12.4*	*25.6*	*1.3*	*0.6*	*4,214.0*	*16.2*	*11.3*
01163.HK	AdTiger	174.3	37.0	-	0.9	0.4	424.0	18.7	2.4

Source: Bloomberg, West Bull Securities

Risk factors

- Squeezed profit margin that was driven by a diminishing bargaining power on price
- Development in China remains weak for a longer period of time
- Demand for traditional digital marketing is eroded by the growing popularity of e-commerce and streaming platforms for advertising, and AdTiger (01163.HK) may not be able to provide related services
- Slow progress on the new business development, and the cost incurred slashes the profitability of AdTiger (01163.HK)
- A plunge in the demand for overseas marketing due to the sliding economic growth as well as the global political and economic situations

Financial Statement

PnL

(RMB, mn)	2021 (A)	2022 (E)	2023 (E)	2024 (E)
Revenue	**351.8**	474.7	586.6	686.2
YoY growth	*67.3%*	*34.9%*	*23.6%*	*17.0%*
COGS	(286.0)	(400.7)	(495.9)	(580.3)
Gross profit	**65.9**	74.0	90.7	05.8
Other income	1.1	0.3	0.3	0.3
Operating expenses	(51.3)	(59.5)	(66.6)	(74.6)
Operating profit	**15.7**	14.8	24.4	31.5
Finance expenses	(0.0)	(0.1)	(0.1)	(0.1)
JV & Ass.	-	-	-	-
Profit before tax	**15.6**	14.7	24.3	31.4
Tax	(3.7)	(2.9)	(4.9)	(6.3)
Net profit	**11.9**	11.8	19.4	25.1
YoY growth	*311.8%*	*-1.1%*	*65.3%*	*29.4%*
Adj. EBITDA	**15.2**	15.3	24.9	32.0

Balance Sheet

(RMB, mn)	2021 (A)	2022 (E)	2023 (E)	2024 (E)
PPE	0.3	0.2	0.1	0.1
Others	7.0	11.5	12.8	13.9
Non-current assets	**7.3**	**11.8**	**12.9**	**14.0**
Inventories	-	-	-	-
Trade receivables	107.1	126.0	125.8	131.6
Cash & cash equivalents	269.6	262.7	299.2	311.4
Others	27.0	50.5	57.0	65.1
Current assets	**403.7**	**439.1**	**482.1**	**508.1**
Total assets	**411.0**	**450.9**	**495.0**	**522.1**
Others	-	-	-	-
Non-current liabilities	**-**	**-**	**-**	**-**
Trade payables	195.9	220.6	243.5	246.1
ST borrowings	-	-	-	-
Others	38.1	41.4	43.2	42.5
Current liabilities	**233.9**	**262.1**	**286.7**	**288.7**
Total liabilities	**233.9**	**262.1**	**286.7**	**288.7**
Non-controlling interests	1.0	1.1	1.3	1.4
Controlling interests	176.1	187.8	207.1	232.1
Total equities	**177.1**	**188.9**	**208.3**	**233.5**

Cash Flow (RMB, mn)	2021 (E)	2022 (E)	2023 (E)	2024 (E)
Profit before tax	15.6	14.7	24.3	31.4
Finance expenses	0.0	0.1	0.1	0.1
Finance income	(0.3)	(0.3)	(0.3)	(0.3)
D&A	0.1	0.2	0.1	0.1
Others	0.3	(0.7)	(2.3)	(3.5)
Change in working capital	(5.1)	6.5	20.3	(5.8)
CFO	**10.7**	**20.5**	**42.2**	**22.1**
CAPEX	(0.2)	(0.4)	(0.9)	(1.9)
Others	(20.6)	(25.4)	(3.0)	(6.0)
CFI	**(20.8)**	**(25.8)**	**(3.9)**	**(7.9)**
Shares issuance	-	-	-	-
Net borrowings	-	-	-	-
Interest paid	-	-	-	-
Dividend paid	-	-	-	-
Others	(0.8)	(1.5)	(1.9)	(2.0)
CFF	**(0.8)**	**(1.5)**	**(1.9)**	**(2.0)**
FCFE	**10.5**	**20.1**	**41.4**	**20.2**
FCFF	**10.5**	**20.1**	**41.4**	**20.2**

Financial Ratio	2021 (A)	2022 (E)	2023 (E)	2024 (E)
Gross margin	18.7%	15.6%	15.5%	15.4%
Operating margin	4.5%	3.1%	4.2%	4.6%
Net profit margin	3.4%	2.5%	3.3%	3.7%
Adj. EBITDA profit margin	4.3%	3.2%	4.2%	4.7%
Return on Equity	6.9%	6.4%	9.8%	11.4%
Return on Asset	2.9%	2.7%	4.1%	4.9%
Current ratio	172.6%	167.6%	168.2%	176.0%
Quick ratio	162.8%	148.3%	148.3%	153.5%
Cash ratio	115.3%	100.2%	104.4%	107.9%
Debt-to-Equity ratio	0.0%	0.0%	0.0%	0.0%
Net Debt-to-Equity ratio	-152.2%	-139.1%	-143.6%	-133.4%

Source: Company data, West Bull Securities

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