

Company Report

China Merchants Securities (HK) Co., Ltd.
Hong Kong Equity Research

XD Inc. (2400 HK)

Getting in shape for better sustainability

- XD plans to launch two self-developed titles in 2023 for domestic market, with potential for third title if license can be obtained
- Taptap has been impacted by overall lackluster industry backdrop in 2022, while ready for 2023 pick up on more new title releases
- Company targets to reach breakeven in 2023 with top line recovery and continued focus on business streamline

Two games loaded for domestic market in 2023

XD is looking to launch two self-developed titles in 2023 for domestic market, which are *T3 Arena* (火力苏打) and *Torchlight: Infinite* (火炬之光：无限) in 2Q23, both games were launched overseas in 2022 and received domestic licenses several months ago. XD is also looking to launch *Sword of Convallaria* (铃兰之剑) overseas during 2Q23, if this game can receive its domestic license in time, there is potential to launch domestically during 2023, in our view. XD's legacy game *Sausage Party* (香肠派对) recorded blockbuster performance with YTD gross billings +53% yoy based on Qimai data, and XD also received licenses for PC version of this game in Feb 2023. Other games in pipeline including: *XD town* (心动小镇), *Etheria: Restart* (伊瑟·重启日) and *Unhappy Raccoon* (浣熊不高兴) etc.

TapTap should improve on more game license approvals

TapTap 1H22 domestic version's MAU reached 42mn, up 46% yoy, with 400mn game downloads, +62% yoy. TapTap 2H22 performance likely has been impacted by overall lackluster consumption and gaming industry performance. With trend increase in gaming license approvals and consumption recovery backdrop for 2023, advertising revenue should see incremental improvement. XD has been pushing its TapTap International version during recent years with focus on English speaking regions, but so far has had limited success, and instead will commit lower resources for the effort while diversifying to other regions, such as Southeast Asia. Company continues to update function for TapTap, such as search, forum, tools etc.

2023 breakeven target

XD has posted adj. net loss of RMB864mn for 2021 and RMB337mn in 1H22, and announced target to reach breakeven in 2023. XD continues to focus on rationalizing costs particularly in selling and marketing, R&D and bandwidth expenses. Per media report ([link](#)), XD has made meaningful headcount reductions during 4Q22. XD has a USD280mn (~RMB2bn) CB which they will likely have to buyback in April 2024. XD had RMB3.79bn of cash and equivalent as of 1H22 and negative OCF of RMB174mn. 2023's turnaround to breakeven will be important for the buyback. XD's current market cap is HKD13.4bn, implying 2.6x FY23E consensus P/S vs 2nd tier peer average of 1.6x.

Financials

RMB mn	FY17	FY18	FY19	FY20	FY21
Revenue	1,344	1,887	2,838	2,848	2,703
Growth (%)	76	40	50	0.3	-5
Gross profit	603	1,111	1,772	1,532	1,226
Growth (%)	77	84	60	-14	-20
Operating profit	134	386	529	88	(956)
Growth (%)	214	189	37	-83	-1190
Net income attributable to shareholders	117	285	347	9	(864)
Growth (%)	363	144	22	-97	-9546

Note: Closing price as of Feb 13, 2023; Sources: Bloomberg, Company data, CMS (HK)

Tommy WONG
+852 3189 6634
tommywong@cmschina.com.hk

Crystal LI, CFA
+852 3189 6122
crystalli@cmschina.com.hk

Kaia ZHANG
+852 3189 6176
kaiazhang@cmschina.com.hk

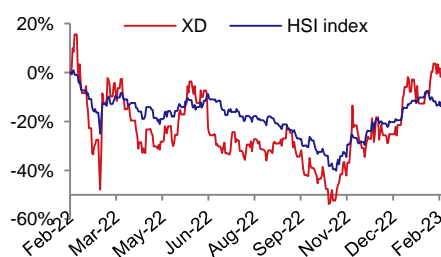
WHAT'S NEW

Company update

NON-RATED

Price (Feb 13, 2023) HKD27.8

Price Performance



Source: Bloomberg

%	1m	6m	12m
2400 HK	4.1	39.8	1.1
HSI Index	(2.6)	5.6	(13.8)

Sector: Technology, Media & Telecom

HSI (Feb 13, 2023)	21,164
HSCEI (Feb 13, 2023)	7,144

Key Data

52-week range (HKD)	12 - 33
Market cap (HKD bn)	13.4
Avg. daily volume (mn)	4.77
BVPS (HKD)	4.89

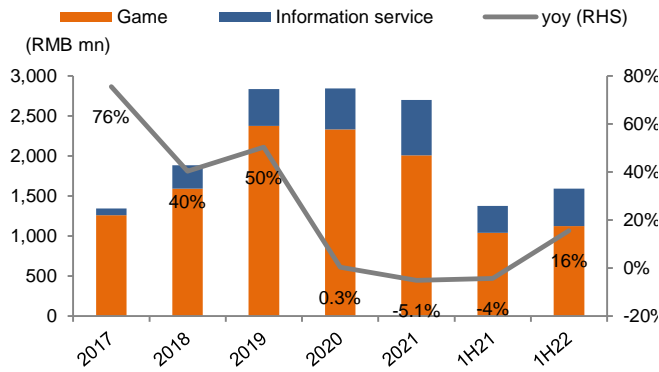
Shareholding Structure

HAPPY TODAY HOLDING LTD.	32.8%
AIKS DANGER INC	11.1%
Others	27.9%
Free float	28.2%

Sources: Bloomberg, CMS (HK)

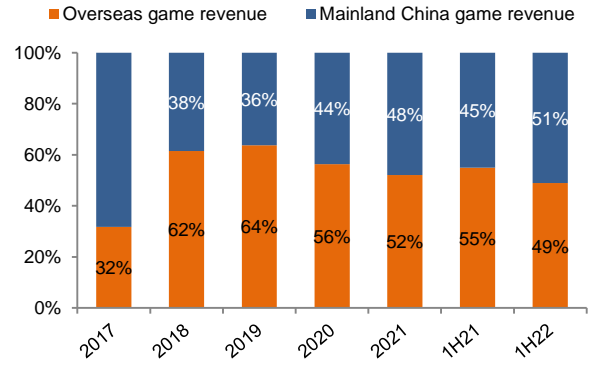
Focus charts

Figure 1: XD revenue by segment



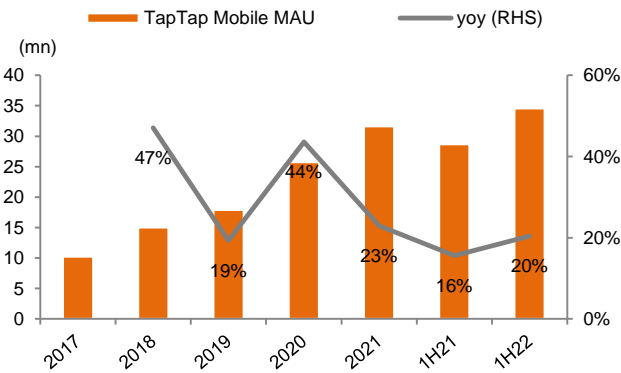
Sources: Company data, CMS (HK)

Figure 2: XD game revenue by region



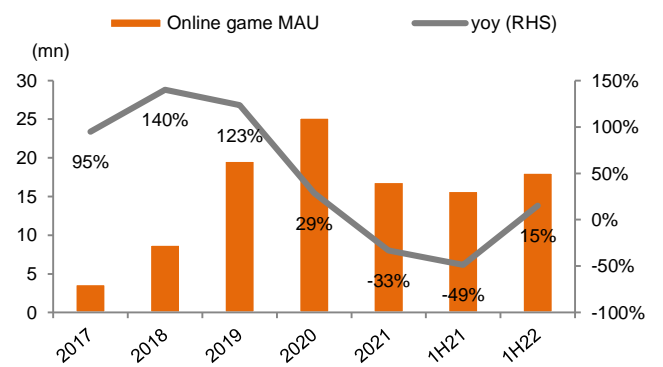
Sources: Company data, CMS (HK)

Figure 3: XD TapTap Mobile MAU



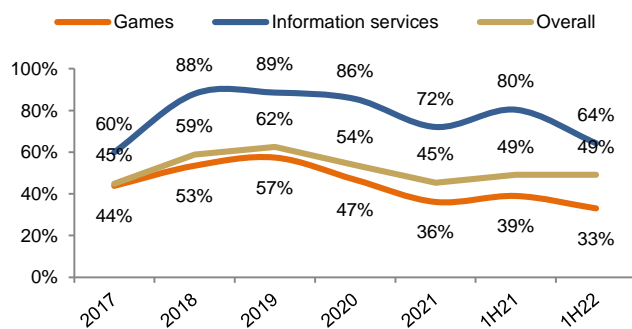
Sources: Company data, CMS (HK)

Figure 4: XD online game MAU



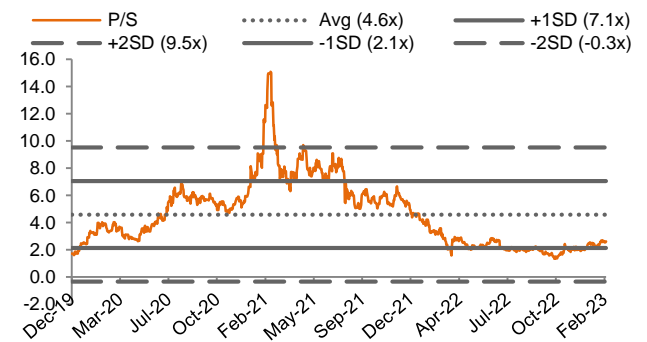
Sources: Company data, CMS (HK)

Figure 5: XD segment gross margins



Sources: Company data, CMS (HK)

Figure 6: XD P/S range



Sources: Company data, Bloomberg, CMS (HK)

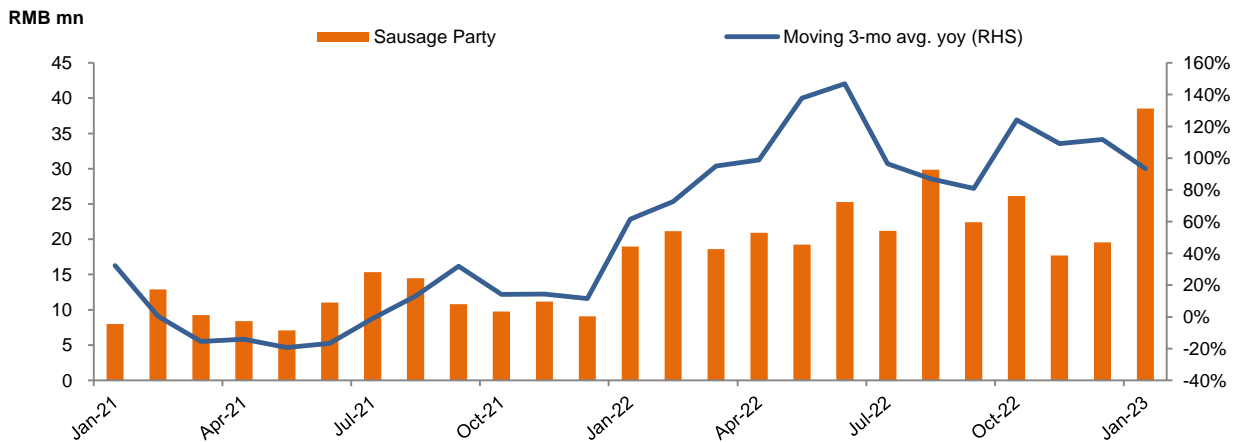
Figure 7: XD's game pipeline for 2022-23

2022-2023 self-developed and licensed games pipeline

EN name	CN name	Genre	(Expected) Launch date		License approval	TapTap rating	TapTap followers(K)
			China	Overseas			
Flash Party	派对之星	FTG	May. 22	Feb. 22	licensed in Apr. 22	6.7	1,900
T3 Arena	火力苏打	STG	May./Jun. 23E	May. 22	licensed in Dec. 22	6.6	2,830
Torchlight: Infinity	火炬之光: 无限	ARPG	Apr. 23E	Oct. 22	licensed in Jan. 23	7.7	1,290
Sword of Convallaria	铃兰之剑	SRPG	TBA	Jun. 23E	No	8.9	770
XD Town	心动小镇	SLG	3Q23E	3Q23E	licensed in Jun. 17	9.1	1,590
Etheria: Restart	伊瑟, 重启日	MMORPG	TBA	TBA	No	8.8	240
Let's go Muffin	出发吧麦芬	Idle game	TBA	TBA	No	8.5	100
Unhappy Raccoon	浣熊不高兴	Roguelike	TBA	Oct. 22	No	8.1	710
Totally Accurate Battle Simulator	全面憨憨战争模拟器	SLG	TBA	Apr. 19	No	9.4	500
Forager	浮岛冒险	AVG	TBA	Oct. 20	No	9.5	280
Zhu Ma cosmetics	竹马胭脂铺	SLG	TBA	TBA	No	9.6	180
Koi Remake	鲤 重制版	AVG	TBA	Jul. 22	No	9.4	130
Jianghu Simulator	模拟江湖	SLG	TBA	TBA	licensed in Sept. 22	7.3	400
Retirement simulator	退休模拟器	SLG	TBA	Apr. 22	licensed in Nov. 22	8.8	160
Carto	无尽旅图	PZL	TBA	May. 21	licensed in Dec. 22	9.6	210

Sources: Company data, TapTap, CMS(HK)

Figure 8: Sausage party's (香肠派对) gross billing



Sources: Company data, Qimai, CMS(HK)

To access our research reports on the Bloomberg terminal, type NH CMS <GO>

Valuation comparison

Company	Bloomberg Ticker	Ccy	CMS Rating	Price	CMS TP	Mkt cap (USD bn)	EV/EBITDA (x)		P/E (x)		PEG*	P/S (x)	P/OCF (x)	ROE (%)		2022-2024E CAGR		
							FY23E	FY24E	FY23E	FY24E				FY23E	FY24E	SALES	EPS	EBITDA
Platform																		
Tencent	700 HK	HKD	BUY	386.6	430.0	470.7	14.1	11.8	22.5	18.8	1.1	5.1	15.2	15.7	16.2	11.3	21.1	20.7
Alibaba	BABA US	USD	BUY	104.8	161.0	277.4	8.1	7.2	13.4	11.9	4.1	2.1	14.2	13.8	14.2	7.0	3.3	12.1
Meituan	3690 HK	HKD	BUY	148.2	249.0	116.9	34.1	21.8	n.a.	34.2	0.3	2.8	33.7	10.1	17.6	23.8	187.7	85.1
Baidu	BIDU US	USD	NR	146.9	n.a.	50.7	9.4	8.1	16.0	13.6	0.6	2.6	8.4	7.3	7.8	9.9	27.6	13.5
Alphabet	GOOGL US	USD	NR	94.6	n.a.	1,214.2	9.8	8.5	17.5	14.7	0.8	4.7	12.0	24.9	25.8	1.5	22.2	19.9
Facebook	FB US	USD	NR	179.4	n.a.	465.2	8.5	7.3	17.9	14.8	0.7	3.8	9.9	19.1	20.0	8.5	26.7	25.6
Naver	035420 KS	KRW	NR	223,000.0	n.a.	28.7	15.6	13.6	30.7	25.4	0.7	3.7	18.1	4.8	5.6	18.4	43.5	9.6
China Mean							14.8	11.2	16.4	18.1	2.0	2.9	17.2	12.1	14.0	11.8	48.6	28.7
Global Mean							11.3	9.8	22.0	18.3	0.7	4.1	13.3	16.3	17.1	9.5	30.8	18.4
Cloud																		
Chinasoft	354 HK	HKD	BUY	6.2	10.0	2.4	8.3	6.9	10.2	8.5	0.5	0.6	20.0	11.5	12.4	23.7	18.9	9.6
Tencent	700 HK	HKD	BUY	386.6	430.0	470.7	14.1	11.8	22.5	18.8	1.1	5.1	15.2	15.7	16.2	11.3	21.1	20.7
Alibaba	BABA US	USD	BUY	104.8	161.0	277.4	8.1	7.2	13.4	11.9	4.1	2.1	14.2	13.8	14.2	7.0	3.3	12.1
Kingsoft	3888 HK	HKD	BUY	30.2	34.0	5.2	10.9	8.7	n.a.	36.1	0.1	4.2	12.6	2.7	3.9	18.5	666.0	25.1
Kingdee	268 HK	HKD	NR	16.7	n.a.	7.4	n.a.	n.a.	n.a.	n.a.	n.a.	8.0	48.2	n.a.	1.3	24.7	n.a.	n.a.
Mingyuan Cloud	909 HK	HKD	NR	6.7	n.a.	1.7	n.a.	n.a.	n.a.	n.a.	n.a.	4.7	n.a.	n.a.	2.4	18.3	n.a.	n.a.
KC Cloud	KC US	USD	NR	4.8	n.a.	1.2	n.a.	4.6	n.a.	n.a.	n.a.	0.9	n.a.	n.a.	n.a.	7.9	n.a.	n.a.
Microsoft	MSFT US	USD	NR	271.3	n.a.	2,019.7	20.1	17.5	29.0	25.2	2.6	9.6	23.2	36.4	34.4	11.4	11.0	9.7
Alphabet	GOOGL US	USD	NR	94.6	n.a.	1,214.2	9.8	8.5	17.5	14.7	0.8	4.7	12.0	24.9	25.8	1.5	22.2	19.9
Amazon	AMZN US	USD	NR	99.5	n.a.	1,020.0	13.2	10.8	37.8	25.9	n.a.	1.8	12.1	11.5	14.6	10.9	n.a.	28.4
Salesforce	CRM US	USD	NR	171.1	n.a.	171.1	17.1	16.5	34.7	29.4	n.a.	5.5	25.2	8.2	7.1	16.8	n.a.	50.5
Oracle	ORCL US	USD	NR	89.4	n.a.	241.1	13.2	11.9	17.9	15.9	1.9	4.8	15.1	n.a.	n.a.	15.6	9.7	39.9
VMware	VMW US	USD	NR	117.7	n.a.	50.1	11.6	11.4	18.5	16.3	n.a.	3.8	12.6	n.a.	n.a.	7.8	n.a.	20.5
Dropbox	DBX US	USD	NR	23.8	n.a.	8.6	10.7	10.1	14.4	13.1	1.3	3.6	10.0	n.a.	91.4	5.6	11.0	4.1
China Mean							10.3	7.8	15.4	18.8	1.4	3.7	22.0	10.9	8.4	15.9	177.3	16.9
Global Mean							13.7	12.4	24.2	20.1	1.6	4.8	15.7	20.3	34.6	10.0	13.5	24.7
Social network & pan-entertainment																		
Tencent	700 HK	HKD	BUY	386.6	430.0	470.7	14.1	11.8	22.5	18.8	1.1	5.1	15.2	15.7	16.2	11.3	21.1	20.7
Bilibili	BILI US	USD	BUY	22.4	33.0	9.2	n.a.	24.2	n.a.	n.a.	n.a.	2.2	n.a.	n.a.	n.a.	20.4	n.a.	n.a.
China Literature	772 HK	HKD	HOLD	38.7	68.0	5.0	15.7	13.3	21.4	18.8	1.1	3.7	18.3	7.8	8.5	11.1	18.6	22.6
Kuaishou	1024 HK	HKD	NR	63.3	n.a.	34.9	44.4	15.5	n.a.	25.5	n.a.	2.2	36.1	n.a.	12.9	16.0	n.a.	n.a.
Tencent Music	TME US	USD	NR	32.2	n.a.	14.1	14.2	13.0	18.9	16.9	0.7	3.2	23.4	8.6	8.9	5.7	25.2	12.2
Weibo	WB US	USD	NR	23.3	n.a.	5.5	8.8	7.8	10.4	9.8	1.1	2.9	10.1	11.1	11.6	5.4	9.3	10.8
iQiyi	IQ US	USD	NR	7.5	n.a.	7.1	25.0	17.0	34.9	20.8	n.a.	1.6	19.9	16.4	23.5	7.1	n.a.	42.6
YY	YY US	USD	NR	36.0	n.a.	2.6	n.a.	n.a.	14.3	11.8	1.1	1.0	8.4	2.1	2.8	7.3	13.3	12.8
Momo	MOMO US	USD	NR	10.4	n.a.	2.1	3.7	3.5	7.3	6.7	1.0	1.1	6.6	14.2	13.7	3.1	7.1	9.1
Huya	HUYA US	USD	NR	5.3	n.a.	1.3	3.8	19.7	n.a.	n.a.	n.a.	1.0	n.a.	n.a.	0.9	n.a.	n.a.	n.a.
Douyu	DOYU US	USD	NR	1.6	n.a.	0.5	n.a.	n.a.	41.5	22.2	n.a.	0.5	10.6	0.3	0.4	n.a.	n.a.	n.a.
Meta	FB US	USD	NR	179.4	n.a.	465.2	8.5	7.3	17.9	14.8	0.7	3.8	9.9	19.1	20.0	8.5	26.7	25.6
Netflix	NFLX US	USD	NR	358.6	n.a.	159.7	23.2	18.7	29.9	23.9	1.4	4.7	45.7	21.6	21.4	10.6	21.1	20.3
Snapchat	SNAP US	USD	NR	10.7	n.a.	16.9	36.7	21.6	n.a.	n.a.	n.a.	3.6	44.1	n.a.	n.a.	9.6	28.5	n.a.
Spotify	SPOT US	USD	NR	122.3	n.a.	23.6	n.a.	n.a.	n.a.	n.a.	n.a.	1.6	n.a.	n.a.	5.8	16.7	n.a.	n.a.
China Mean							16.2	15.0	21.4	16.8	1.0	2.2	16.5	9.5	9.9	10.8	15.8	18.7
Global Mean							22.8	15.9	23.9	19.4	1.0	3.4	33.2	20.4	15.7	11.4	25.4	23.0

Company	Bloomberg Ticker	Ccy	CMS Rating	Price	CMS TP	Mkt cap (USD bn)	EV/EBITDA (x)		P/E (x)		PEG*	P/S (x)		P/OCF (x)		ROE (%)		2022-2024E CAGR		
							FY23E	FY24E	FY23E	FY24E		FY23E	FY23E	FY23E	FY23E	FY23E	FY24E	Sales	EPS	EBITDA
Online Gaming																				
Netease	NTES US	USD	BUY	87.9	113.0	57.7	10.7	9.8	18.0	16.7	n.a.	3.9	15.5	19.3	18.0	10.4	2.8	9.6		
Tencent	700 HK	HKD	BUY	386.6	430.0	470.7	14.1	11.8	22.5	18.8	1.1	5.1	15.2	15.7	16.2	11.3	21.1	20.7		
Bilibili	BILI US	USD	BUY	22.4	33.0	9.2	n.a.	24.2	n.a.	n.a.	n.a.	2.2	n.a.	n.a.	n.a.	20.4	n.a.	n.a.		
Kingsoft	3888 HK	HKD	BUY	30.2	34.0	5.2	10.9	8.7	n.a.	36.1	0.1	4.2	12.6	2.7	3.9	18.5	666.0	25.1		
iDreamSky	1119 HK	HKD	BUY	4.1	4.4	0.7	10.4	7.1	25.3	11.2	n.a.	1.7	n.a.	4.4	9.0	16.3	n.a.	80.3		
Qingci	6633 HK	HKD	NR	5.4	n.a.	0.5	3.5	n.a.	7.2	n.a.	n.a.	1.5	n.a.	24.7	n.a.	n.a.	n.a.	n.a.		
Netdragon	777 HK	HKD	NR	18.1	n.a.	1.2	2.9	2.6	5.9	5.2	0.4	0.9	4.6	16.3	15.9	13.6	14.1	14.2		
CMGE	302 HK	HKD	NR	2.1	n.a.	0.7	6.5	5.3	8.9	5.9	n.a.	1.0	10.9	9.8	10.5	44.7	n.a.	82.8		
XD	2400 HK	HKD	NR	27.8	n.a.	1.7	n.a.	21.6	n.a.	33.6	n.a.	2.6	9.6	1.0	15.4	29.6	n.a.	n.a.		
Archosaur Game	9990 HK	HKD	NR	4.9	n.a.	0.5	13.8	n.a.	n.a.	n.a.	n.a.	2.0	n.a.	n.a.	n.a.	17.7	n.a.	n.a.		
SEA	SE US	USD	NR	65.0	n.a.	36.5	n.a.	46.4	n.a.	n.a.	n.a.	2.7	n.a.	n.a.	n.a.	16.0	n.a.	n.a.		
Nintendo	7974 JP	JPY	NR	5,224.0	n.a.	51.2	10.0	10.8	15.7	17.4	n.a.	4.0	16.5	20.3	16.5	n.a.	n.a.	n.a.		
Activision Blizzard	ATVI US	USD	NR	76.6	n.a.	59.9	14.2	13.3	19.5	18.1	0.7	6.4	19.8	12.6	13.2	14.3	26.5	40.6		
Electronic Arts	EA US	USD	NR	113.2	n.a.	31.0	13.0	12.1	18.2	16.9	0.3	4.2	21.0	18.1	18.5	8.1	59.5	25.3		
Take-Two	TTWO US	USD	NR	111.4	n.a.	18.8	24.1	17.7	31.6	20.3	1.3	3.5	39.5	3.6	5.3	38.6	24.5	25.9		
Nexon	3659 JP	JPY	NR	3,035.0	n.a.	19.8	14.5	13.0	24.0	21.0	1.8	6.5	19.2	12.7	12.9	12.6	13.6	20.8		
Ncsoft	036570 KS	KRW	NR	428,000.0	n.a.	7.4	11.3	9.5	19.6	16.2	1.2	3.6	16.3	13.5	15.1	7.0	16.2	27.8		
Zynga	ZNGA US	USD	NR	8.2	n.a.	9.3	14.2	12.2	19.7	14.0	0.7	3.0	13.7	n.a.	n.a.	6.0	29.7	13.3		
Netmarble	251270 KS	KRW	NR	59,000.0	n.a.	4.0	18.2	14.9	86.4	44.5	n.a.	1.7	29.4	0.8	2.2	10.4	n.a.	8.3		
China Mean							9.3	11.2	15.2	18.1	0.5	2.6	12.0	12.6	13.4	19.3	141.4	34.6		
Global Mean							15.0	16.7	29.3	21.0	1.0	4.0	21.9	11.7	12.0	14.1	28.3	23.1		
E-commerce																				
JD.com	JD US	USD	BUY	52.4	74.0	82.8	11.9	8.7	17.8	12.4	0.6	0.4	11.7	13.0	16.2	20.4	30.4	30.8		
Alibaba	BABA US	USD	BUY	104.8	161.0	277.4	8.1	7.2	13.4	11.9	4.1	2.1	14.2	13.8	14.2	7.0	3.3	12.1		
Meituan	3690 HK	HKD	BUY	148.2	249.0	116.9	34.1	21.8	n.a.	34.2	0.3	2.8	33.7	10.1	17.6	23.8	187.7	85.1		
Pinduoduo	PDD US	USD	NR	96.1	n.a.	121.5	16.6	13.0	19.6	15.5	2.1	5.1	15.6	27.6	26.7	22.2	9.4	25.6		
Beike	BEKE US	USD	NR	20.3	n.a.	25.4	20.0	16.0	32.8	25.9	0.4	2.5	27.8	6.9	8.5	15.8	75.0	78.7		
Vipshop	VIPS US	USD	NR	14.6	n.a.	8.9	6.0	5.7	8.8	8.3	1.8	0.6	7.1	14.0	12.7	6.2	5.0	7.2		
Baозun	BZUN US	USD	NR	7.3	n.a.	0.4	8.0	5.5	11.1	6.5	0.2	0.3	6.0	3.5	6.2	6.7	46.8	22.5		
Amazon	AMZN US	USD	NR	99.5	n.a.	1,020.0	13.2	10.8	37.8	25.9	n.a.	1.8	12.1	11.5	14.6	10.9	n.a.	28.4		
eBay	EBAY US	USD	NR	48.9	n.a.	26.6	9.2	8.7	12.3	11.5	1.6	2.8	9.5	47.1	53.2	1.7	7.7	1.8		
China Mean							14.6	10.8	17.4	15.9	1.3	1.8	16.0	12.7	14.8	15.3	48.5	36.6		
Global Mean							11.2	9.7	25.0	18.7	1.6	2.3	10.8	29.3	33.9	6.3	7.7	15.1		
Vertical																				
trip.com	TCOM US	USD	NR	37.9	n.a.	24.3	32.0	18.9	33.4	19.9	n.a.	5.5	25.1	3.9	6.0	40.3	n.a.	n.a.		
Autohome	ATHM US	USD	NR	36.0	n.a.	4.5	5.0	4.5	14.2	13.1	4.9	4.2	12.9	8.3	8.3	6.4	2.9	17.3		
Tongcheng-Elong	780 HK	HKD	NR	17.7	n.a.	5.1	16.3	12.5	24.8	18.9	0.3	3.9	18.7	7.3	9.3	29.4	73.2	71.7		
Expedia	EXPE US	USD	NR	111.4	n.a.	17.1	7.6	6.6	11.6	9.5	0.4	1.3	5.6	48.9	53.4	10.7	30.7	27.2		
China Mean							15.2	10.6	21.0	15.3	1.9	3.7	15.6	17.1	19.3	21.7	35.6	38.7		

Note: Closing prices as of Feb 13, 2023 (All market) ; For future estimates of NR Co.s, Bloomberg consensus used; Sources: Bloomberg, Company, CMS (HK) estimate

Financial Summary

Balance Sheet

RMB mn	FY17	FY18	FY19	FY20	FY21
Cash and cash equivalents	578	573	1,337	2,320	3,165
Trade receivables	216	449	406	299	224
Prepayments, deposits and other assets	77	162	208	178	130
ST investments	116	157	497	0	792
Property, plant and equipment	29	46	87	113	149
Right-of-use assets	32	59	38	130	140
Intangible assets	175	192	199	199	249
Deferred tax assets	8	8	11	17	76
LT investments	80	78	83	90	120
Total assets	1,311	1,725	2,866	3,345	5,044
Trade payables	125	101	201	165	205
Advances from customers	8	9	16	21	37
Other payables and accruals	60	84	152	240	342
Contract liabilities	105	91	99	129	207
Tax liabilities	20	36	72	80	49
Lease liabilities	35	61	40	130	138
Total liabilities	353	382	580	765	2,662
Total equity	958	1,343	2,287	2,580	2,382

Cashflow Statement

RMB mn	FY17	FY18	FY19	FY20	FY21
Operating CF	296	174	861	348	(475)
Income before tax	142	389	545	107	(956)
Depreciation & amortization	56	74	108	142	187
Working capital chg	60	(288)	144	135	298
Others	47	23	6	27	7
Taxes paid	(10)	(25)	5	(62)	(26)
Investing CF	(132)	(200)	(469)	387	(986)
Net purchase of property and equipment	(19)	(33)	(67)	(71)	(92)
Purchase of intangible assets	(15)	(140)	(73)	(40)	(56)
Net cash acquired/(paid) for business combinations	(18)	0	0	0	0
Net acquisition of investments accounted using equity method	(2)	(1)	0	(10)	0
Net acquisition of LT investments measured at FV through profit of loss	(9)	6	0	(3)	(9)
Net purchase from ST investments	(68)	(32)	(329)	507	(766)
Financing CF	249	1	363	330	2,388

Sources: Company data, CMS (HK)

Profit & Loss Statement

RMB mn	FY17	FY18	FY19	FY20	FY21
Total net revenues	1,344	1,887	2,838	2,848	2,703
Cost of revenues	(742)	(776)	(1,066)	(1,316)	(1,477)
Gross profit	603	1,111	1,772	1,532	1,226
S&M expenses	(244)	(448)	(745)	(633)	(780)
R&D expenses	(117)	(198)	(318)	(658)	(1,242)
G&A expenses	(84)	(107)	(203)	(180)	(235)
Other operating income/(expenses)	(23)	29	23	26	76
Total operating expenses	(469)	(724)	(1,242)	(1,444)	(2,182)
Operating profit	134	386	529	88	(956)
Finance income	3	5	8	16	14
Finance costs	(2)	(2)	(3)	(4)	(40)
Share of results of investments accounted for using equity method	8	0	11	8	26
Income before tax	142	389	545	107	(956)
Income tax expense	(22)	(37)	(32)	(51)	39
Net income	121	353	513	56	(917)
Non-controlling interests	(4)	(68)	(167)	(47)	53
Net income attributable to shareholders	117	285	347	9	(864)

Financial Ratios

	FY17	FY18	FY19	FY20	FY21
yoy growth rate					
Games revenue	65%	26%	49%	-2%	-14%
Information services revenue	n.a.	264%	56%	12%	34%
Revenue	76%	40%	50%	0.3%	-5.1%
Gross profit	77%	84%	60%	-14%	-20%
Operating profit	214%	189%	37%	-83%	-1190%
Net income	416%	193%	46%	-89%	-1744%
Net income attributable to shareholders	363%	144%	22%	-97%	-9546%
Profitability					
Gross margin	45%	59%	62%	54%	45%
Operating margin	10%	20%	19%	3%	-35%
Net margin	9%	19%	18%	2%	-34%
Net margin attributable to shareholders	9%	15%	12%	0.3%	-32.0%
ROE	16%	25%	19%	0.4%	-34.8%
ROA	12%	19%	15%	0.3%	-20.6%

Investment Ratings

Industry Rating	Definition
OVERWEIGHT	Expect sector to outperform the market over the next 12 months
NEUTRAL	Expect sector to perform in-line with the market over the next 12 months
UNDERWEIGHT	Expect sector to underperform the market over the next 12 months

Company Rating	Definition
BUY	Expect stock to generate 10%+ return over the next 12 months
HOLD	Expect stock to generate +10% to -10% over the next 12 months
SELL	Expect stock to generate loss of 10%+ over the next 12 months

Analyst Disclosure

The analysts primarily responsible for the preparation of all or part of the research report contained herein hereby certify that: (i) the views expressed in this research report accurately reflect the personal views of each such analyst about the subject securities and issuers; and (ii) no part of the analyst's compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed in this research report.

Regulatory Disclosure

Please refer to the important disclosures on our website <http://www.newone.com.hk/cmshk/gb/disclosure.html> or <http://www.cmschina.com.hk/Research/Disclosure>.

Disclaimer

This document is prepared by China Merchants Securities (HK) Co Limited. The information contained herein has been obtained from or is based on sources believed to be reliable. China Merchant Securities (HK) Co Limited, its holding company or affiliated companies, or any of its or their directors, officers or employees (collectively "CMS") do not represent or warrant, expressly or impliedly, that it is accurate, correct or complete and it should not be relied upon. CMS will not accept any responsibility or liability whatsoever for any use of or reliance upon this document or any of the content thereof.

This document is for information purpose only. Neither the information nor opinion expressed shall be construed, expressly or impliedly, as an advice, offer or solicitation of an offer, invitation, advertisement, inducement, recommendation or representation of any kind or form whatsoever to buy or sell any security, financial instrument or any investment or other specific product. The securities, instruments or strategies discussed in this document may not be suitable for all investors, and certain investors may not be eligible to participate in some or all of them. Certain services and products are subject to legal restrictions and cannot be offered worldwide on an unrestricted basis and/or may not be eligible for sale to all investors. CMS is not registered as a broker-dealer in the United States and its products and services are not available to U.S. persons except as permitted under SEC Rule 15a-6.

Opinions, and associated estimates and forecasts, or any content and information in this document are only current as of the date of their publication and will be subject to change without prior notice. Past performance is not indicative of future performance. Estimates of future performance are based on assumptions that may not be realized. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. Opinions expressed herein may differ or be contrary to those expressed by other business divisions or other members of CMS as a result of using different assumptions and/or criteria.

This document has been prepared without regard to the individual financial circumstances and investment objectives of the persons who receive it. Use of any information herein shall be at the sole discretion and risk of the user. Investors are advised to independently evaluate particular investments and strategies, take financial and/or

tax advice as to the implications (including tax) of investing in any of the securities or products mentioned in this document, and make their own investment decisions without relying on this publication.

CMS may have a long or short position, make markets, act as principal or agent, or engage in transactions in securities of companies referred to in this document and may also perform or seek to perform investment banking services or provide advisory or other services for those companies.

This document is for the use of intended recipients only and this document may not be reproduced, distributed or published in whole or in part for any purpose without the prior consent of CMS. CMS will not be liable for any claims or lawsuits from any third parties arising from the use or distribution of this document.

This document is for distribution only under such circumstances as may be permitted by applicable law. This document is not directed at you if CMS is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you. In particular, this document is only made available to certain US persons to whom CMS is permitted to make available according to US securities laws, but cannot otherwise be made available, distributed or transmitted, whether directly or indirectly, into the US or to any US person.

In Hong Kong, this document is distributed by China Merchants Securities (HK) Co., Limited, which is a licensed corporation to carry on Type 1 (dealing in securities), Type 2 (dealing in futures), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the Securities and Futures Ordinance (Chapter 571).

In South Korea, professional clients can get copies of this document (upon request) through China Merchants Securities (Korea) Co., Limited

In the United Kingdom, this document is distributed by China Merchants Securities (UK) Limited. This document is for distribution only to persons who: (i) are persons falling within the definition of "Investment Professionals" pursuant to Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the "Financial Promotion Order"); (ii) are persons falling within Article 49(2)(a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Financial Promotion Order; or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as "Relevant Persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not Relevant Persons. Any investment or investment activity to which this document relates is available only to Relevant Persons and will be engaged in only with Relevant Persons.

If there is any inconsistency or ambiguity between the English version and the Chinese version of this disclaimer, the English version shall prevail.

© China Merchant Securities (HK) Co., Limited. All rights reserved.

Hong Kong

China Merchants Securities (HK) Co., Ltd.
Address: 48/F, One Exchange Square, Central, Hong
Kong
Tel: +852 3189 6888 Fax: +852 3101 0828