

3 Apr, 2024

## Newborn Town | 09911.HK

### Strong outlook, but vague on details

STOCK RATING

**BUY**

TARGET PRICE

**HK\$ 3.31**

Newborn Town (09911.HK) reported a total revenue of RMB 3.3bn and RMB 512.8mn profit attributable to shareholders, (ex. FV gains) slightly higher than our estimates.

#### Strong performance of Sugo, TopTop and other APPs offset the sluggish contribution from Mico:

The Group had resilient progress in MENA market which is one of the primary markets for the Group. Sugo and TopTop, major drivers in the MENA market, delivered a YoY ~3x and ~2x increase in revenue respectively. However, Mico recorded a shocking >YoY 30% decline (according to the information provided in the investor presentation) which was far beyond our expectations, slashing the accretive effect brought by a replacement of streamers. The contribution from other undisclosed APPs boomed ~1x, accounting for ~17% of the revenue in the social networking business, but the information is limited because they are “too insignificant to disclose”, according to the Group. The Group aims to develop 2 more flagship social networking APPs with >USD 10mn monthly revenue in 3 years, we hope to get more information about other APPs in the future.

#### Steady progress in the innovative business:

Alice’s Dream remained solid as expected, and monthly revenue reached USD 8mn in 2023 Q4, bringing a possibility for the Group to realize a profit from this game. The Group also launched Taylor’s Secret and Merge Cove in 2023, and Cooking Story will be launched in 2024 1H, resulting in a decent contribution from IAP games in the innovative business.

#### Foreseeable lower GM caused by consolidation:

The contribution from Sugo, TopTop and the replacement of streamers brought Newborn Town (09911.HK) a 14.3p.p. increment in GM to 52.1%, higher than our estimates. Increasing contributions from Sugo, TopTop and new games partially offset the effect brought by the FY consolidation of BlueCity, maintaining the GM at a >50% level.

#### Strong outlook, but vague on details:

TopTop, Sugo, BlueCity and the innovative business remain the major catalysts, but we are more conservative due to the vague information about the sharp retreat of Mico and the strong performance of undisclosed APPs. We, thus, slash the TP to HKD 3.31/share, maintaining “BUY”.

## COMPANY UPDATE

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### Newborn Town (09911.HK)

**Stock Rating** (Previous Rating) **BUY** (BUY)

**Target Price** (Previous TP) **HK\$ 3.31** (HK\$ 3.78)

Current Price HK\$ 1.85

52-Week Range HK\$ 1.33 – 2.76

Market cap. (HKD, bn) HK\$ 3.1

RMB, mn	23(A)	24(E)	25(E)	26(E)
Revenue	3,307.8	4,190.7	4,542.0	4,880.5
Gross Profit	1,722.1	2,151.8	2,322.3	2,483.1
Gross Margin	52.1%	51.3%	51.1%	50.9%
Net Profit attr.	512.8	449.5	472.1	499.3
EPS	0.447	0.377	0.396	0.419

Performance	1 mth	3 mth	6 mth	1 year
Absolute	45.0%	37.4%	26.7%	55.4%
Relative to HSI	42.9%	36.5%	31.6%	72.4%



## Peers comparison

		Mkt. Cap.	P/E	Fw. P/E	P/B	P/S	Revenue	GM	ROE
		(HKD, mn)	(x)	(x)	(x)	(x)	(HKD, mn)	(%)	(%)
00302.HK	CMGE	3,083.0	-	3.6	0.5	1.1	2,880.9	36.2	(0.4)
00700.HK	Tencent	2,931,341.5	23.5	15.2	3.4	4.4	673,293.5	48.1	15.1
00799.HK	IGG	3,930.5	1.3	8.3	0.2	0.2	41,226.1	74.4	25.0
02100.HK	Baioo	678.0	-	3.1	0.4	0.7	865.4	40.6	(1.9)
02400.HK	XD Inc.	6,755.9	-	22.2	3.7	1.8	3,746.9	61.0	(4.6)
02660.HK	Zengame	3,638.0	4.5	-	1.4	1.6	2,276.7	59.8	35.5
03798.HK	Homeland	2,785.0	5.8	-	1.3	1.4	1,967.5	65.3	24.9
06633.HK	Qingci Games	2,696.2	-	14.4	1.4	2.8	1,001.3	61.6	(2.1)
06820.HK	FriendTimes	2,028.2	-	-	1.6	1.8	1,167.5	66.5	(10.2)
06933.HK	Sino Entertainment	99.1	-	-	0.5	9.9	9.9	(30.2)	(40.8)
09990.HK	Archosaur Games	1,094.0	-	-	0.4	1.1	1,006.3	71.6	(12.8)
09999.HK	NTES	3,083.0	-	3.6	0.5	1.1	2,880.9	36.2	(0.4)
	<i>Average - Gaming</i>	<i>286,820.3</i>	<i>2.9</i>	<i>6.7</i>	<i>1.2</i>	<i>2.2</i>	<i>70,319.2</i>	<i>51.3</i>	<i>4.4</i>
BMBL.US	Bumble	16,410.0	35.8	14.1	0.9	1.4	8,234.6	70.7	(0.3)
MTCH.US	Match Group	73,898.0	15.4	14.9	-	2.9	26,340.2	71.6	-
YALA.US	Yalla Group	5,873.9	7.5	6.4	1.3	2.4	2,496.4	64.1	23.3
MOMO.US	Hello Group	11,338.5	4.6	4.9	0.7	0.7	13,269.1	41.5	17.2
YY.US	Joyy	15,863.2	10.8	8.3	7.8	1.0	17,754.8	35.8	6.7
	<i>Average - Social Networking</i>	<i>24,676.7</i>	<i>14.9</i>	<i>9.7</i>	<i>2.7</i>	<i>1.7</i>	<i>13,619.1</i>	<i>56.8</i>	<i>11.7</i>
09911.HK	Newborn Town	3,156.7	5.5	6.3	2.6	0.8	3,656.9	52.1	56.1

Source: Bloomberg, West Bull Securities

## Risk Factors

- The performance of Mico remains sluggish
- The overseas expansion of BlueCity is slow, leading to a loss to the overseas business
- Unable to achieve breakeven / monetize the new games or social networking APPs
- Unable to replicate the successful performance on the new APPs

## Financial Statement

PnL					Balance Sheet				
(RMB, mn)	2023 (A)	2024 (E)	2025 (E)	2026 (E)	(RMB, mn)	2023 (A)	2024 (E)	2025 (E)	2026 (E)
<b>Revenue</b>	<b>3,307.8</b>	<b>4,190.7</b>	<b>4,542.0</b>	<b>4,880.5</b>	PPE	124.9	129.9	132.4	134.4
<i>YoY growth</i>	<i>18.1%</i>	<i>26.7%</i>	<i>8.4%</i>	<i>7.5%</i>	Intangible assets	646.0	659.8	635.5	611.2
COGS	(1,585.7)	(2,038.9)	(2,219.7)	(2,397.4)	Others	77.9	80.9	83.1	86.5
<b>Gross profit</b>	<b>1,722.1</b>	<b>2,151.8</b>	<b>2,322.3</b>	<b>2,483.1</b>	<b>Non-current assets</b>	<b>848.7</b>	<b>870.6</b>	<b>851.0</b>	<b>832.1</b>
Other income	6.6	1.8	2.1	2.4	Inventories	19.3	26.2	25.8	32.3
Operating expenses	(1,177.5)	(1,548.6)	(1,695.3)	(1,823.5)	Trade receivables	243.2	288.8	295.7	314.2
<b>Operating profit</b>	<b>551.1</b>	<b>605.1</b>	<b>629.1</b>	<b>661.9</b>	Cash & cash equivalents	1,386.4	1,375.3	1,388.6	1,517.2
Finance expenses	15.5	42.8	42.5	43.0	Others	293.3	937.7	1,650.0	2,263.6
JV & Ass.	47.3	-	-	-	<b>Current assets</b>	<b>1,942.1</b>	<b>2,628.0</b>	<b>3,360.0</b>	<b>4,127.3</b>
<b>Profit before tax</b>	<b>613.9</b>	<b>647.9</b>	<b>671.6</b>	<b>704.9</b>	<b>Total assets</b>	<b>2,790.9</b>	<b>3,498.6</b>	<b>4,211.1</b>	<b>4,959.4</b>
Tax	(12.1)	(22.7)	(23.5)	(24.7)	LT borrowings	-	-	-	-
<b>Net profit</b>	<b>601.8</b>	<b>625.2</b>	<b>648.1</b>	<b>680.3</b>	Others	145.9	145.3	144.9	144.6
<i>YoY growth</i>	<i>109.4%</i>	<i>3.9%</i>	<i>3.7%</i>	<i>5.0%</i>	<b>Non-current liabilities</b>	<b>145.9</b>	<b>145.3</b>	<b>144.9</b>	<b>144.6</b>
					Trade payables	293.0	311.5	320.8	314.6
					ST borrowings	-	-	-	-
					Others	403.4	418.2	414.9	421.8
					<b>Current liabilities</b>	<b>696.4</b>	<b>729.7</b>	<b>735.7</b>	<b>736.4</b>
					<b>Total liabilities</b>	<b>842.3</b>	<b>875.1</b>	<b>880.7</b>	<b>881.0</b>
					Non-controlling interests	826.6	1,002.3	1,178.3	1,359.2
					Controlling interests	1,120.9	1,621.3	2,152.1	2,719.2
					<b>Total equities</b>	<b>1,947.5</b>	<b>2,623.6</b>	<b>3,330.4</b>	<b>4,078.5</b>

Cash Flow					Financial Ratio				
(RMB, mn)	2023 (A)	2024 (E)	2025 (E)	2026 (E)		2023 (A)	2024 (E)	2025 (E)	2026 (E)
Profit before tax	772.8	647.9	671.6	704.9	Gross margin	52.1%	51.3%	51.1%	50.9%
Finance expenses	-	-	-	-	Operating margin	16.7%	14.4%	13.9%	13.6%
Finance income	(15.5)	(42.8)	(42.5)	(43.0)	Net profit margin	23.0%	14.9%	14.3%	13.9%
D&A	63.7	56.5	56.4	57.8	Adj. EBITDA profit margin	21.9%	17.3%	16.7%	16.4%
Others	(184.1)	90.8	98.1	107.7	Return on Equity	47.8%	27.4%	21.8%	18.4%
Change in working capital	116.7	(79.6)	(12.5)	(40.0)	Return on Asset	33.7%	19.9%	16.8%	14.8%
<b>CFO</b>	<b>753.5</b>	<b>672.8</b>	<b>771.2</b>	<b>787.5</b>	Current ratio	278.9%	360.1%	456.7%	560.5%
					Quick ratio	273.6%	353.7%	449.6%	552.2%
CAPEX	(9.4)	(31.2)	(34.5)	(35.5)	Cash ratio	199.1%	188.5%	188.7%	206.0%
Others	224.0	(629.1)	(700.0)	(600.0)	Debt-to-Equity ratio	0.0%	0.0%	0.0%	0.0%
<b>CFI</b>	<b>214.6</b>	<b>(660.3)</b>	<b>(734.5)</b>	<b>(635.5)</b>	Net Debt-to-Equity ratio	-71.2%	-52.4%	-41.7%	-37.2%
					Inventory turnover days	7.8	8.3	8.8	9.4
Shares issuance	-	-	-	-	Receivable turnover days	27.1	27.3	27.9	27.4
Net borrowings	-	-	-	-	Payable turnover days	55.6	54.1	52.0	48.4
Interest paid	-	-	-	-					
Dividend paid	-	-	-	-					
Others	(162.3)	(23.6)	(23.4)	(23.3)					
<b>CFF</b>	<b>(162.3)</b>	<b>(23.6)</b>	<b>(23.4)</b>	<b>(23.3)</b>					
<b>FCFE</b>	<b>743.9</b>	<b>641.5</b>	<b>736.7</b>	<b>751.9</b>					
<b>FCFF</b>	<b>743.9</b>	<b>641.5</b>	<b>736.7</b>	<b>751.9</b>					

Source: Company data, West Bull Securities

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