

14 Oct, 2024

## Newborn Town | 09911.HK

An increment in the profit attributable to shareholders

STOCK RATING

**BUY**

TARGET PRICE

**HK\$ 3.80**

Newborn Town (09911.HK) achieved a YoY 65.3% increment in revenue to RMB 2,271.9mn for the half year ended 30 Jun 2024, of which RMB 2,070.4mn was generated from the social networking business.

**Sugo and TopTop remained resilient:** Thanks to the outstanding performance in the MENA market, TopTop and Sugo accounted for over 30% of total revenue, remaining the primary growing drivers of the Group. Sugo achieved over USD 10mn monthly recharge and accounted for ~24% of the overall recharge amount of social networking business in Jun 2024. We expect that more than 1x growth can be delivered in FY 2024 for TopTop and Sugo, bringing a more than 50% YoY growth to the Group in the social networking business. The number of active users remains the major focus of these apps, additional inputs will be incurred for further expansion.

**Mico delivered a stable 1H, and Mico World remained solid:** Mico achieved a rebound in 2024 1H, accounting for more than 40% of the revenue generated from the social networking business, optimization of operations and commercialization strategies brought Mico a better performance in the first half, and Mico is still one of the primary sources of profit to the Group. Additionally, the Group announced the acquisition of the non-wholly owned subsidiary owning social entertainment products such as Mico and YoHo, improving the profit attributable to the shareholders after the acquisition.

**Waiting for the contribution from IAP games:** Newborn Town (09911.HK) recorded a YoY 53.7% growth in the innovative business. About 1/3 was generated from the IAA games, and the rest were contributed from other traffic monetization. Although the monthly recharge of IAP games like Alice's Dream was strong, no contribution was made as the Group does not directly own the games, and the Group may have profit sharing if a profit can be realized from these games.

**An increment in the profit attributable to shareholders:** The performance of TopTop and Sugo was better than our estimates, and it is also a positive signal to see a rebound of Mico, the acquisition will also bring the Group a sound increase in the profit attributable to the shareholders. We, therefore, upward adjust the TP to HKD 3.80/share, maintaining "BUY".

## COMPANY UPDATE

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### Newborn Town (09911.HK)

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

**Target Price** (Previous TP) **HK\$ 3.80** (HK\$ 3.31)

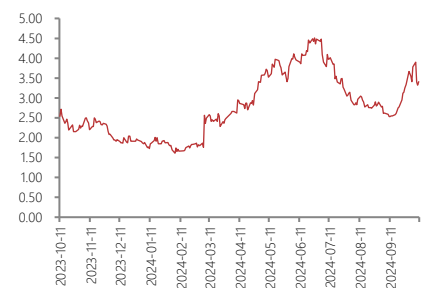
Current Price HK\$ 3.41

52-Week Range HK\$ 1.56 – 4.79

Market cap. (HKD, bn) HK\$ 4.1

RMB, mn	23(A)	24(E)	25(E)	26(E)
Revenue	3,307.8	4,401.4	5,281.1	5,573.5
Gross Profit	1,722.1	2,203.5	2,641.1	2,763.5
Gross Margin	52.1%	50.1%	50.0%	49.6%
Net Profit attr.	512.8	441.0	803.7	806.1
EPS	0.447	0.365	0.570	0.571

Performance	1 mth	3 mth	6 mth	1 year
Absolute	34.8%	-14.1%	16.4%	33.7%
Relative to HSI	11.5%	-35.7%	-7.6%	13.4%



## 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	2,595.9	-	-	0.4	1.0	2,880.9	36.2	(5.5)
00700.HK	Tencent	4,071,896.4	24.5	17.0	4.3	5.9	673,293.5	48.1	18.6
00799.HK	IGG	4,893.2	6.3	-	1.6	0.9	5,265.9	74.4	28.6
02100.HK	Baioo	788.5	-	-	0.4	1.1	865.4	40.6	(1.6)
02400.HK	XD Inc.	11,013.3	324.0	12.7	5.6	2.5	3,746.9	61.0	1.7
02660.HK	Zengame	2,942.0	4.1	-	1.1	1.3	2,276.7	59.8	28.6
03798.HK	Homeland	2,002.1	25.4	-	0.9	1.1	1,967.5	65.0	3.4
06633.HK	Qingci Games	1,811.3	-	-	0.9	1.8	1,001.3	61.6	(2.1)
06820.HK	FriendTimes	1,483.0	-	-	1.2	1.4	1,167.5	66.5	(10.6)
06933.HK	Sino Entertainment	70.1	-	-	0.6	1.6	9.9	(159.7)	(67.5)
09990.HK	Archosaur Games	1,884.6	-	-	0.8	1.8	1,006.3	71.6	(9.3)
09999.HK	NTES	442,114.7	-	11.9	-	-	114,388.7	60.9	23.5
	<i>Average - Gaming</i>	<i>378,624.6</i>	<i>76.9</i>	<i>13.9</i>	<i>1.6</i>	<i>1.9</i>	<i>67,322.6</i>	<i>40.5</i>	<i>0.6</i>
BMBL.US	Bumble	6,695.2	9.5	9.1	0.5	0.8	8,234.6	70.7	2.6
MTCH.US	Match Group	75,579.9	16.4	15.7	-	2.9	26,340.2	71.6	-
YALA.US	Yalla Group	5,492.8	6.3	5.6	1.1	2.2	2,496.4	64.1	22.9
MOMO.US	Hello Group	10,110.3	8.2	7.2	1.6	1.0	13,269.1	41.5	12.4
YY.US	Joyy	16,209.0	11.0	9.4	0.4	1.0	17,754.8	35.8	5.2
	<i>Average - Social Networking</i>	<i>22,817.4</i>	<i>10.3</i>	<i>9.4</i>	<i>0.9</i>	<i>1.6</i>	<i>13,619.1</i>	<i>56.8</i>	<i>10.8</i>
09911.HK	Newborn Town	4,062.0	6.4	8.6	2.8	0.8	3,656.9	52.1	49.8

Source: Bloomberg, West Bull Securities

## Risk Factors

- The strong performance of Sugo And TopTop cannot sustain
- Room for operation optimization is limited for Mico
- The overseas expansion of BlueCity is slow, leading to a loss to the overseas business

- Unable to achieve breakeven / to monetize the new games or social networking APPs
- Growing contribution from the undisclosed sources

## 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>4,401.4</b>	<b>5,281.1</b>	<b>5,573.5</b>	PPE	124.9	125.9	122.7	120.4
<i>YoY growth</i>	<i>18.1%</i>	<i>33.1%</i>	<i>20.0%</i>	<i>5.5%</i>	Intangible assets	646.0	640.7	609.8	580.2
COGS	(1,585.7)	(2,197.9)	(2,640.0)	(2,810.0)	Others	77.9	86.5	91.5	91.5
<b>Gross profit</b>	<b>1,722.1</b>	<b>2,203.5</b>	<b>2,641.1</b>	<b>2,763.5</b>	<b>Non-current assets</b>	<b>848.7</b>	<b>853.2</b>	<b>824.1</b>	<b>792.2</b>
Other income	6.6	(11.6)	1.9	2.1	Inventories	19.3	26.4	22.9	30.7
Operating expenses	(1,177.5)	(1,490.3)	(1,805.9)	(1,923.8)	Trade receivables	243.2	324.4	385.1	349.8
<b>Operating profit</b>	<b>551.1</b>	<b>701.6</b>	<b>837.1</b>	<b>841.9</b>	Cash & cash equivalents	1,386.4	1,191.3	1,149.1	1,233.3
Finance expenses	15.5	44.4	37.9	36.6	Others	293.3	950.2	1,680.2	2,279.7
JV & Ass.	47.3	-	-	-	<b>Current assets</b>	<b>1,942.1</b>	<b>2,492.3</b>	<b>3,237.3</b>	<b>3,893.5</b>
Others	158.8	-	-	-	<b>Total assets</b>	<b>2,790.9</b>	<b>3,345.5</b>	<b>4,061.4</b>	<b>4,685.6</b>
<b>Profit before tax</b>	<b>772.8</b>	<b>746.0</b>	<b>875.0</b>	<b>878.5</b>	LT borrowings	-	-	-	-
Tax	(12.1)	(26.1)	(30.6)	(30.7)	Others	145.9	138.9	135.2	132.1
<b>Net profit</b>	<b>760.6</b>	<b>719.9</b>	<b>844.3</b>	<b>847.7</b>	<b>Non-current liabilities</b>	<b>145.9</b>	<b>138.9</b>	<b>135.2</b>	<b>132.1</b>
<i>YoY growth</i>	<i>164.7%</i>	<i>-5.4%</i>	<i>17.3%</i>	<i>0.4%</i>	Trade payables	293.0	358.7	393.4	351.3
					ST borrowings	-	-	-	-
					Others	403.4	1,129.2	911.0	664.9
					<b>Current liabilities</b>	<b>696.4</b>	<b>1,487.9</b>	<b>1,304.5</b>	<b>1,016.3</b>
					<b>Total liabilities</b>	<b>842.3</b>	<b>1,626.8</b>	<b>1,439.6</b>	<b>1,148.4</b>
					Non-controlling interests	826.6	167.3	208.0	249.6
					Controlling interests	1,120.9	1,551.4	2,413.7	3,287.6
					<b>Total equities</b>	<b>1,947.5</b>	<b>1,718.7</b>	<b>2,621.7</b>	<b>3,537.3</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	746.0	875.0	878.5	Gross margin	52.1%	50.1%	50.0%	49.6%
Finance expenses	-	-	-	-	Operating margin	16.7%	15.9%	15.9%	15.1%
Finance income	(15.5)	(44.4)	(37.9)	(36.6)	Net profit margin	23.0%	16.4%	16.0%	15.2%
D&A	63.7	74.3	62.3	61.1	Adj. EBITDA profit margin	21.9%	19.3%	18.3%	17.6%
Others	(184.1)	95.3	80.1	87.2	Return on Equity	47.8%	39.3%	38.9%	27.5%
Change in working capital	116.7	(39.7)	(44.2)	(28.6)	Return on Asset	33.7%	23.5%	22.8%	19.4%
<b>CFO</b>	<b>753.5</b>	<b>831.3</b>	<b>935.4</b>	<b>961.6</b>	Current ratio	278.9%	167.5%	248.2%	383.1%
					Quick ratio	273.6%	164.3%	244.3%	376.8%
CAPEX	(9.4)	(248.5)	(251.8)	(252.8)	Cash ratio	199.1%	80.1%	88.1%	121.4%
Others	224.0	(632.8)	(700.0)	(600.0)	Debt-to-Equity ratio	0.0%	0.0%	0.0%	0.0%
<b>CFI</b>	<b>214.6</b>	<b>(881.4)</b>	<b>(951.8)</b>	<b>(852.8)</b>	Net Debt-to-Equity ratio	-71.2%	-69.3%	-43.8%	-34.9%
					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)	(145.1)	(25.8)	(24.6)					
<b>CFF</b>	<b>(162.3)</b>	<b>(145.1)</b>	<b>(25.8)</b>	<b>(24.6)</b>					
<b>FCFE</b>	<b>743.9</b>	<b>582.8</b>	<b>683.6</b>	<b>708.8</b>					
<b>FCFF</b>	<b>743.9</b>	<b>582.8</b>	<b>683.6</b>	<b>708.8</b>					

Source: Company data, West Bull Securities

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