

07 Apr, 2024

Newborn Town | 09911.HK

A breakthrough in the innovative business and an increase in profitability from a diversified product portfolio

STOCK RATING

BUY

TARGET PRICE

HK\$ 5.73

Sugo and TopTop became the major contributors: Newborn Town (09911.HK) reported a remarkable YoY revenue increase of 53.9% increase, reaching RMB 5,091.5mn for the year ended 31 Dec 2024. The MENA market has proven resilient, with Sugo and TopTop emerging as the primary revenue drivers, each experiencing substantial growth — over 2x and 1x, respectively. These APPs have collectively contributed revenue on par with established products like Mico and YoHo. The optimization of the social recommendation algorithm has significantly enhanced Sugo's performance, with a monthly recharge amounting to USD 10mn and an impressive over 20% improvement in ARPU. The MENA region remains crucial for the Group's expansion strategy, and user growth for Sugo and TopTop also remains a primary business focus. To capitalize on anticipated market growth, we anticipate that marketing expenditures will remain elevated.

Innovative business gained luster: The innovative business segment has shown promising advancements, particularly in the niche game business. The recharge of the games soared YoY 80.4% to about RMB 705mn, contributing approximately RMB 22.0mn in revenue. Alice's Dream continued to be the leading title, and one more game will be released this year. However, the gross margin in this segment has contracted, primarily due to the increasing contribution from the social e-commerce platform providing users with health.

An increase in the profit attributable to shareholders: The Group's acquisition of the non-wholly owned subsidiary owning social entertainment products such as Mico and YoHo, and the implementation of a HKD 400mn share repurchase scheme will materially improve the profit attributable to shareholders.

A breakthrough in the innovative business and an increase in profitability from a diversified product portfolio: The Group has demonstrated its capacity for replication and localization, building on the successes of Sugo and TopTop. The breakthrough in innovative business segments and the increasing profitability from diversified sources, beyond Mico, position the Group favourably for future growth. Strong cash inflows are projected from this diversified product portfolio, leading to a substantial improvement in profits attributable to shareholders following the acquisition. In light of these developments, we revise our target price to HKD 5.73 per share and maintain our "BUY" recommendation.

COMPANY UPDATE

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Newborn Town (09911.HK)

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

Target Price (Previous TP) **HK\$ 5.73** (HK\$ 3.80)

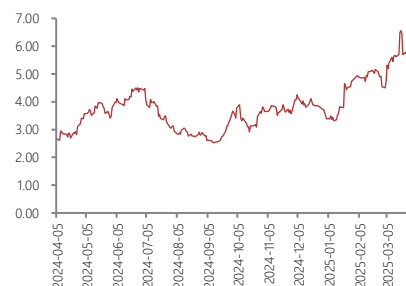
Current Price HK\$ 4.95

52-Week Range HK\$ 2.30 – 6.69

Market cap. (HKD, bn) HK\$ 7.0

RMB, mn	23(A)	24(E)	25(E)	26(E)
Revenue	5,091.5	5,902.5	6,989.2	7,758.6
Gross Profit	2,607.7	3,062.4	3,608.2	3,998.7
Gross Margin	51.2%	51.9%	51.6%	51.5%
Net Profit attr.	480.3	971.4	1,102.8	1,263.6
EPS	0.422	0.709	0.829	0.949

Performance	1 mth	3 mth	6 mth	1 year
Absolute	36.7%	81.4%	80.4%	131.2%
Relative to HSI	37.3%	65.8%	77.0%	94.6%



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	1,243.1	-	-	0.3	0.6	2,091.8	31.2	(43.9)
00700.HK	Tencent	4,580,837.2	22.3	17.5	4.4	6.5	715,570.9	52.9	21.8
00799.HK	IGG	4,296.1	7.3	6.9	1.4	0.7	5,737.1	80.4	19.8
02100.HK	Baioo	1,462.3	-	-	0.8	2.4	591.0	46.2	(1.7)
02400.HK	XD Inc.	16,138.5	18.1	15.2	6.0	2.9	5,432.0	69.4	38.4
02660.HK	Zengame	2,436.3	5.2	-	0.9	1.3	1,796.6	55.4	17.6
03798.HK	Homeland	1,373.2	-	-	0.7	0.9	1,502.2	45.4	(3.7)
06633.HK	Qingci Games	2,226.1	43.1	33.5	1.1	3.3	680.6	57.8	2.9
06820.HK	FriendTimes	1,243.1	-	-	1.0	1.0	1,260.2	70.0	(4.2)
06933.HK	Sino Entertainment	71.8	-	-	0.8	1.5	48.4	4.0	(30.6)
09990.HK	Archosaur Games	1,089.6	-	-	0.5	0.9	1,233.2	72.3	(12.9)
09999.HK	NTES	531,118.0	-	14.2	-	-	114,116.5	62.5	22.6
	<i>Average - Gaming</i>	<i>428,627.9</i>	<i>19.2</i>	<i>17.5</i>	<i>1.6</i>	<i>2.0</i>	<i>70,838.4</i>	<i>54.0</i>	<i>2.2</i>
BMBL.US	Bumble	5,185.7	3.6	7.5	0.5	0.5	8,361.8	70.2	(45.3)
MTCH.US	Match Group	55,957.1	14.2	13.0	-	2.1	27,148.9	71.5	-
YALA.US	Yalla Group	5,744.0	6.3	5.4	1.0	2.2	2,650.4	64.5	21.3
MOMO.US	Hello Group	7,459.6	6.8	5.9	1.2	0.7	11,447.9	39.0	9.7
	<i>Average - Social Networking</i>	<i>18,586.6</i>	<i>7.7</i>	<i>8.0</i>	<i>0.9</i>	<i>1.4</i>	<i>12,402.3</i>	<i>61.3</i>	<i>(4.8)</i>
09911.HK	Newborn Town	8,677.4	13.5	8.7	4.5	1.3	5,518.1	51.2	36.1

Source: Bloomberg, West Bull Securities

Risk Factors

- The strong performance of Sugo and TopTop cannot sustain
- A decrease in the profitability of Mico
- The marketing expenses cannot be well-controlled
- Unable to replicate the performance of Alice's Dream in other niche games

Financial Statement

PnL					Balance Sheet				
(RMB, mn)	2024 (A)	2025 (E)	2026 (E)	2027 (E)	(RMB, mn)	2024 (A)	2025 (E)	2026 (E)	2027 (E)
Revenue	5,091.5	5,902.5	6,989.2	7,758.6	PPE	92.0	95.5	84.9	76.6
YoY growth	53.9%	15.9%	18.4%	11.0%	Intangible assets	597.1	609.8	580.2	550.6
COGS	(2,483.9)	(2,840.1)	(3,381.0)	(3,759.9)	Others	78.8	83.4	86.1	89.9
Gross profit	2,607.7	3,062.4	3,608.2	3,998.7	Non-current assets	767.9	788.8	751.2	717.1
Other income	4.9	2.0	2.3	1.5					
Operating expenses	(1,883.7)	(2,098.0)	(2,451.4)	(2,687.4)	Inventories	18.2	29.5	32.1	37.9
Operating profit	728.9	966.4	1,159.0	1,312.8	Trade receivables	341.9	383.4	434.2	507.2
Finance expenses	57.7	89.5	103.3	130.3	Cash & cash equivalents	2,048.6	2,341.5	2,924.6	3,579.7
JV & Ass.	(1.7)	-	-	-	Others	406.4	729.2	1,009.3	1,300.2
Others	-	-	-	-	Current assets	2,815.1	3,483.6	4,400.2	5,425.0
Profit before tax	784.8	1,055.9	1,262.4	1,443.1					
Tax	2.9	(52.8)	(126.2)	(144.3)	Total assets	3,583.0	4,272.3	5,151.4	6,142.2
Net profit	787.8	1,003.1	1,136.1	1,298.8					
YoY growth	3.6%	27.3%	13.3%	14.3%	LT borrowings	-	-	-	-
					Others	107.6	101.8	97.1	93.3
					Non-current liabilities	107.6	101.8	97.1	93.3
					Trade payables	382.6	391.3	465.5	525.2
					ST borrowings	-	-	-	-
					Others	1,115.6	898.7	1,069.6	923.9
					Current liabilities	1,498.1	1,290.0	1,535.1	1,449.1
					Total liabilities	1,605.7	1,391.9	1,632.2	1,542.4
					Non-controlling interests	113.8	145.4	178.7	213.9
					Controlling interests	1,541.1	2,326.6	3,243.4	4,274.5
					Total equities	1,654.9	2,472.0	3,422.1	4,488.4

Cash Flow					Financial Ratio				
(RMB, mn)	2024 (A)	2025 (E)	2026 (E)	2027 (E)		2024 (A)	2025 (E)	2026 (E)	2027 (E)
Profit before tax	784.8	1,055.9	1,262.4	1,443.1	Gross margin	51.2%	51.9%	51.6%	51.5%
Finance expenses	-	-	-	-	Operating margin	14.3%	16.4%	16.6%	16.9%
Finance income	(57.7)	(89.5)	(103.3)	(130.3)	Net profit margin	15.5%	17.0%	16.3%	16.7%
D&A	78.0	55.3	52.4	49.9	Adj. EBITDA profit margin	19.2%	17.5%	17.5%	17.8%
Others	226.2	52.9	(5.7)	5.0	Return on Equity	43.7%	48.6%	38.6%	32.8%
Change in working capital	31.8	(69.8)	74.3	28.7	Return on Asset	24.7%	25.5%	24.1%	23.0%
CFO	1,063.2	1,004.7	1,280.0	1,396.5	Current ratio	187.9%	270.0%	286.6%	374.4%
					Quick ratio	184.6%	264.1%	281.0%	367.3%
CAPEX	(8.8)	(245.0)	(243.2)	(243.1)	Cash ratio	136.7%	181.5%	190.5%	247.0%
Others	(77.9)	(260.7)	(250.0)	(250.0)	Debt-to-Equity ratio	0.0%	0.0%	0.0%	0.0%
CFI	(86.8)	(505.7)	(493.2)	(493.1)	Net Debt-to-Equity ratio	-123.8%	-94.7%	-85.5%	-79.8%
					Inventory turnover days	52.6	54.4	56.2	58.1
Shares issuance	-	-	-	-	Receivable turnover days	24.3	25.6	24.4	25.2
Net borrowings	0.0	-	-	-	Payable turnover days	49.6	49.7	46.2	48.1
Interest paid	-	-	-	-					
Dividend paid	(34.4)	-	-	-					
Others	(284.2)	(206.1)	(203.7)	(248.2)					
CFF	(318.6)	(206.1)	(203.7)	(248.2)					
FCFE	1,054.0	759.7	1,036.9	1,153.3					
FCFF	1,054.0	759.7	1,036.9	1,153.3					

Source: Company data, West Bull Securities

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