

23 Jun, 2025

Newborn Town | 09911.HK

A revaluation brought by favourable environment and robust growth potential

STOCK RATING

BUY

TARGET PRICE

HK\$ 12.90

Lustrous social networking business: In Q1 2025, Newborn Town (09911.HK) reported a YoY revenue increase of 39.1% to 44.3% in its social networking segment. The growth trajectory remained strong, driven by the application of AI technology and enhancements in the social recommendation algorithm, which improved user engagement. Despite a temporary setback due to Eid al-Fitr in Mar and Apr the performance of the social networking APPs rebounded in May. Notably, Sugo, the flagship social networking product, achieved a monthly recharge of approximately USD 24mn and a MAU of around 4mn. This positive trend continued into Jun, and the impact brought by the geopolitical tensions in the Middle East was minimal.

Innovative business remained robust: The innovative business segment remained promising in Q1 2025, achieving YoY growth of 66.7% to 88.2%. The contributions from niche games and the social e-commerce platform fueled this growth. The success of Alice's Dream delivered a positive signal in this business segment, given the convincing replication capability, the Group is expected to reach the break-even point more swiftly and achieve superior ROI for newly launched games.

Establishment of global headquarters in HK: The Group has established its global headquarters and an AI research center in Hong Kong, leveraging the city's favourable international business environment, mature capital markets, and access to top-tier talent. This strategic move aims to deepen the application of AI across its operations, positioning the company at the forefront of technological advancements in the industry.

A revaluation brought by favourable environment and robust growth potential: Newborn Town (09911.HK) has exhibited solid growth in both revenue and net profit attributable to shareholders. Key products such as Sugo, TopTop, and Blued, alongside niche games, are expected to sustain growth, providing shareholders with attractive returns. The company's substantial cash reserves enable it to pursue acquisitions of high-potential businesses, such as BlueCity. Recent positive trends in Chinese stocks and a peak in the risk-free rate are expected to lead to a favourable revaluation, we believe that these macroeconomic factors, combined with the company's strong growth prospects, will enhance its valuation metrics. Thus, we have revised our target price to HKD 12.90 per share and maintained our "BUY" recommendation.

COMPANY UPDATE

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Newborn Town (09911.HK)

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

Target Price (Previous TP) **HK\$ 12.90** (HK\$ 5.73)

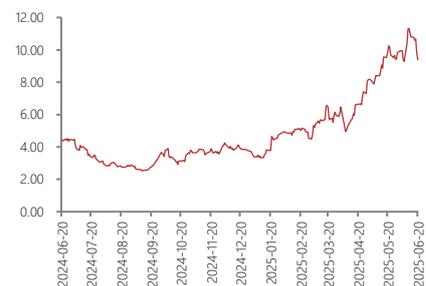
Current Price HK\$ 9.38

52-Week Range HK\$ 2.30 – 11.50

Market cap. (HKD, bn) HK\$ 13.3

RMB, mn	24(A)	25(E)	26(E)	27(E)
Revenue	5,091.5	6,835.7	8,454.6	9,933.1
Gross Profit	2,607.7	3,546.5	4,376.8	5,130.2
Gross Margin	51.2%	51.9%	51.8%	51.6%
Net Profit attr.	480.3	963.2	1,228.8	1,563.4
EPS	0.422	0.703	0.923	1.197

Performance	1 mth	3 mth	6 mth	1 year
Absolute	-4.0%	45.0%	141.1%	110.3%
Relative to HSI	-3.4%	47.8%	121.8%	82.0%



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	1,347.9	-	-	0.3	0.6	2,091.8	31.2	(43.9)
00700.HK	Tencent	4,569,522.6	21.0	16.2	4.0	6.2	715,570.0	52.9	21.2
00799.HK	IGG	4,866.2	8.3	8.1	1.6	0.8	5,737.1	80.4	19.8
02100.HK	Baioo	1,376.2	-	-	0.8	2.2	591.0	46.2	(1.7)
02400.HK	XD Inc.	23,151.3	25.3	22.1	8.4	4.1	5,432.0	69.4	38.4
02660.HK	Zengame	2,170.5	4.5	-	0.8	1.2	1,796.6	55.4	17.6
03798.HK	Homeland	1,552.9	-	-	0.8	1.0	1,502.2	45.4	(3.7)
06633.HK	Qingci Games	2,350.5	39.5	34.6	1.2	3.4	680.6	57.8	2.9
06820.HK	FriendTimes	2,028.2	-	-	1.6	1.5	1,260.2	70.0	(4.2)
06933.HK	Sino Entertainment	62.6	-	-	0.7	1.3	48.4	4.0	(30.6)
09990.HK	Archosaur Games	1,314.0	-	-	0.6	1.0	1,233.2	72.3	(12.9)
09999.HK	NTES	643,329.4	-	15.6	-	-	114,116.3	62.5	23.9
	<i>Average - Gaming</i>	<i>437,756.0</i>	<i>19.7</i>	<i>19.3</i>	<i>1.9</i>	<i>2.1</i>	<i>70,838.3</i>	<i>54.0</i>	<i>2.2</i>
BMBL.US	Bumble	6,664.8	4.7	5.6	0.7	0.6	8,361.8	70.2	(47.0)
MTCH.US	Match Group	59,269.8	15.0	13.0	-	2.2	27,148.9	71.5	-
YALA.US	Yalla Group	8,001.0	8.3	-	1.4	3.0	2,650.4	64.5	21.0
MOMO.US	Hello Group	10,682.6	7.5	7.9	0.9	1.0	11,447.9	39.0	13.1
	<i>Average - Social Networking</i>	<i>21,154.5</i>	<i>8.9</i>	<i>8.8</i>	<i>1.0</i>	<i>1.7</i>	<i>12,402.3</i>	<i>61.3</i>	<i>(4.3)</i>
09911.HK	Newborn Town	13,853.5	21.1	13.0	8.2	2.0	5,518.1	51.2	36.1

Source: Bloomberg, West Bull Securities

Risk Factors

- The strong performance of Sugo and TopTop cannot be sustained
- A sudden change in the macroenvironment in MENA due to the escalating international conflicts
- 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	6,835.7	8,454.6	9,933.1	PPE	92.0	89.1	78.5	75.0
<i>YoY growth</i>	53.9%	34.3%	23.7%	17.5%	Intangible assets	597.1	596.0	560.3	526.6
COGS	(2,483.9)	(3,289.3)	(4,077.8)	(4,802.8)	Others	78.8	84.7	91.0	100.3
Gross profit	2,607.7	3,546.5	4,376.8	5,130.2	Non-current assets	767.9	769.8	729.7	701.9
Other income	4.9	2.2	2.5	1.9	Inventories	18.2	41.4	32.5	63.0
Operating expenses	(1,883.7)	(2,591.0)	(3,085.9)	(3,495.9)	Trade receivables	341.9	512.9	575.1	757.4
Operating profit	728.9	957.7	1,293.4	1,636.2	Cash & cash equivalents	2,048.6	2,464.9	3,137.7	4,032.6
Finance expenses	57.7	89.5	108.9	140.0	Others	406.4	731.5	1,287.8	1,859.0
JV & Ass.	(1.7)	-	-	-	Current assets	2,815.1	3,750.7	5,033.1	6,711.9
Others	-	-	-	-	Total assets	3,583.0	4,520.5	5,762.8	7,413.8
Profit before tax	784.8	1,047.2	1,402.4	1,776.2	LT borrowings	-	-	-	-
Tax	2.9	(52.4)	(140.2)	(177.6)	Others	430.0	496.5	202.3	243.3
Net profit	787.8	994.8	1,262.1	1,598.6	Non-current liabilities	430.0	496.5	202.3	243.3
<i>YoY growth</i>	3.6%	26.3%	26.9%	26.7%	Trade payables	382.6	513.7	561.0	729.6
					ST borrowings	-	-	-	-
					Others	1,115.6	886.7	1,115.1	977.2
					Current liabilities	1,498.1	1,400.4	1,676.1	1,706.8
					Total liabilities	1,605.7	1,896.9	1,878.5	1,950.1
					Non-controlling interests	113.8	145.4	178.7	213.9
					Controlling interests	1,541.1	2,478.2	3,705.6	5,249.8
					Total equities	1,654.9	2,623.6	3,884.3	5,463.7

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	1,047.2	1,402.4	1,776.2	Gross margin	51.2%	51.9%	51.8%	51.6%
Finance expenses	-	-	-	-	Operating margin	14.3%	14.0%	15.3%	16.5%
Finance income	(57.7)	(89.5)	(108.9)	(140.0)	Net profit margin	15.5%	14.6%	14.9%	16.1%
D&A	78.0	62.8	58.2	53.1	Adj. EBITDA profit margin	19.2%	17.7%	18.6%	19.6%
Others	226.2	227.7	188.9	219.6	Return on Equity	43.7%	46.5%	38.8%	34.2%
Change in working capital	31.8	(120.4)	78.9	(18.8)	Return on Asset	24.7%	24.6%	24.5%	24.3%
CFO	1,063.2	1,127.8	1,619.5	1,890.1	Current ratio	187.9%	267.8%	300.3%	393.2%
					Quick ratio	184.6%	261.5%	294.5%	384.9%
CAPEX	(8.8)	(244.7)	(242.9)	(247.0)	Cash ratio	136.7%	176.0%	187.2%	236.3%
Others	(77.9)	(260.7)	(500.0)	(500.0)	Debt-to-Equity ratio	0.0%	0.0%	0.0%	0.0%
CFI	(86.8)	(505.4)	(742.9)	(747.0)	Net Debt-to-Equity ratio	-123.8%	-93.9%	-80.8%	-73.8%
					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	883.1	1,376.6	1,643.1					
FCFF	1,054.0	883.1	1,376.6	1,643.1					

Source: Company data, West Bull Securities

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