

Perfect World (002624.SZ)

Driven by Film & drama and Gaming with strong adaption capacities

Hong Kong | TMT | Company Report

1 August 2018

Investment Summary

Perfect World engaged in Film and TV series creation as well as Gaming development in China, together with strong game development and film production capabilities. Besides, it is one of the few who has gaming and film & drama business in the market. Those two businesses could create a robust synergy, so Perfect can maintain rapid growth in the future. We project the net profit growth to be 19%/32% in 2018/19F. Assuming a target P/E of 23x in 2018, we initiate a "Accumulate" rating and give a target price of \$31.19 with a potential upside of 11.0%. (Closing price at 30 July 2018)

Corporate Background

In 10 Dec 2014, Perfect injected the assets of Film and TV drama into "Jinlei co." to list in A share market, and renamed to "Perfect World Pictures". In 6 Jan 2016, the assets of gaming development are also injected into the listed company at a price of 12 billion RMB, and renamed to "Perfect World" in July. In addition, it acquired Jindian Studios, Jindian Cinema, and Jindian Culture for 1.353 billion RMB in 13 Sep 2016, in order to enhance the distribution channel. However, Due to the poor performance of cinema business, perfect transferred its assets of cinema business to the Perfect World Holdings, the controlling shareholder of the listed company, at a price of 1.665 billion RMB.

Film

Most of Perfect's original films are low-cost romances, including "Sofie's Revenge", "The Piano in a Factory", "Love is Not Blind" and "Let's Get Married" and so on. The most successful work was "Love is Not Blind" released in 2011, which was adapted from a popular online novel from Bao Jingjing, and directed by Teng Hua-Tao, the director of "Wo Ju". The film was blockbuster, grossing 189 million RMB in its first week, and 350 million RMB eventually. However, the production and promotion cost were only about 10 million RMB. The film was also highly recognized by the industry, winning the "Outstanding Feature Film Award" in the 15th China Watch Award and the "Excellent Feature Film" Award in the 31st Flower Awards. In 2017, Perfect produced a relatively costly action movie for the first time: "Extraordinary Mission", but the return is not so remarkable.

Accumulate (Initially)

CMP CNY 28.10

(Closing price at 30 July 2018)

TARGET CNY 31.19 (+11.0%)

COMPANY DATA

O/S SHARES (MN) :	1,315
MARKET CAP (RMBMN) :	36,946
52 - WK HI/LO (RMB):	25.65 / 38.10

SHARE HOLDING PATTERN , %

Perfect World holdings	35.06
Chi Yufeng	13.41

PRICE PERFORMANCE , %

	1M	3M	1Y
Perfect World	-9.38	-19.67	-15.56
CSI	0.12	-6.44	-5.31

RETURN VS. CSI



Source: Aastocks, Phillip Securities (HK) Research

KEY FINANCIALS

RMB mn	FY16	FY17	FY18E	FY19E
Revenue	6,159	7,930	8,819	10,651
Net Profit	1,133	1,460	1,743	2,577
EPS, RMB	0.887	1.095	1.356	1.780
PER, x	31.68	25.66	20.72	15.78
BVPS, RMB	5.20	5.75	7.14	8.57
P/BV, x	5.40	4.89	3.93	3.28
ROE, %	16.2	18.9	20.5	22.7

Source: Company reports, Phillip Securities Est.

Research Analyst

Terry Li (2277 6527)

terryli@phillip.com.hk

Figure: Original films produced by Perfect World

電影名稱	上映時間	內地票房 (萬元)
非常完美	13/8/2009	9,199
鋼琴	15/7/2011	662
失戀 33 天	8/11/2011	32,064
等風來	31/12/2013	7,979
觸不可及	19/9/2014	7,682
咱們結婚吧	2/4/2015	28,449
非凡任務	31/3/2017	15,643

Source: CBO 中國票房, Phillip Securities (HK) Ltd.

Perfect actively participated in the production of foreign blockbusters, including: “Jason Bourne”, “Fifty Shades Darker”, “Divergent” series and “Pacific Rim 2: Uprising”. In 2016, Perfect and Universal Studios reached strategic cooperation agreement, where Perfect will contribute 250 million USD, supported bank revolving loans, and will participate in the global movie film project investment share of about 25% in the next five years, with no less than 50 products. Perfect is entitled to receive the permanent global benefits of each film, including box office, audio and video revenue TV, multimedia channel distribution revenue, and peripheral product licensing revenue. At the 90th Oscar Awards, “Darkest Hour”, “Phantom Thread” and “Victoria and Abdul”, invested and produced by Perfect and Universal Studios, are nominated for 14 awards, and won 9, including the best film, best director, and best actor.

In addition to film production, Perfect is also engaged in film distribution business, indicating that it can handle the film from production to distribution.

Figure: Investment plan on Film in 2018

序号	電影名稱 (暫定名)	制作进度
1	父子	完成制作
2	媽閣是座城	后期制作中
3	影	后期制作中
4	解码者	后期制作中
5	催眠裁决	拍摄中
6	当小七遇到加菲	筹备中
7	格斗少年	筹备中
8	河盗 (网络大电影)	筹备中

Source: Company report, Phillip Securities (HK) Ltd.

TV series

Perfect is one of the companies with the highest outputs in TV series, with about 500 episodes every year and a wide range of genres, such as Costume, Mystery, Teen, Contemporary and Romance. The TV series includes “Legend of Chu and Han”, “Hot Girl 2”, “Soul Ferry”, “Let's Get Married”, and “The Legend of the Condor Heroes”. “Hero Dog” series is one of the successful works of Perfect, which is about the story of people and dogs in pet hospitals. According to the CSM50, the drama ranked 8th in the year, and launched season two and three in 2016 and 2017 respectively. Perfect also plans to launch season four in 2018. In addition, the “Soul Ferry” series and “Agni Cantabile” also released on the online platforms such as Youku and Iqiyi. The video view of “Agni Cantabile” exceeded 100 million after 18 hours, and more than 5.5 billion on April 5.

Figure: Investment plan on TV series in 2018

序号	投资项目名称	制作进度 (截至报告日)	预计开拍日期
1	爱在星空下	完成制作	
2	幸福的理由	完成制作	
3	西夏死书	后期制作中	
4	勇敢的心2	后期制作中	
5	最美的青春	后期制作中	
6	忽而今夏	后期制作中	
7	趁我们还年轻	后期制作中	
8	香蜜沉沉烬如霜	后期制作中	
9	走火	后期制作中	
10	壮志高飞	后期制作中	
11	半生缘	后期制作中	
12	帝凰业	拍摄中	
13	不婚女王	拍摄中	
14	绝代双骄	拍摄中	
15	山月不知心底事	拍摄中	
16	艳势番之新青年	拍摄中	
17	一号文件	拍摄中	
18	麓麓	筹备中	2018年上半年
19	家有仙妻	筹备中	2018年上半年
20	烈火神盾	筹备中	2018年上半年
21	他知道风从哪个方向来	筹备中	2018年上半年
22	七月与安生	筹备中	2018年上半年
23	青春斗	筹备中	2018年上半年
24	猎头局中局	筹备中	2018年下半年
25	妙探先生	筹备中	2018年下半年
26	惊天动地	筹备中	2018年下半年
27	我的AI男友	筹备中	2018年下半年
28	霍元甲	筹备中	2018年下半年
29	野火春风斗古城	筹备中	2018年下半年
30	网络罪案调查组	筹备中	2018年下半年
31	青年特工	筹备中	2018年下半年
32	方根书简	筹备中	2018年下半年
33	心理大师	筹备中	2018年下半年

Source: Company report, Phillip Securities (HK) Ltd.

Variety Show

Perfect adopted the strategy of “Fine quality” and “Innovation” in variety shows, and produced programs through original production, project cooperation or cross-border cooperation. The works include: “Go Fighting”, “King Cross”, “Unlimited Song Season” and “Back to field”. “Go Fighting” is one of the most popular works, an inspirational experience reality show. The main members are Huang Wei, Sun Honglei, Huang Lei and Luo Zhixiang. For every episode, different guests will be invited to the show in order to retain the freshness of the show. The season four has broadcasted in Dragon Television.

Figure: The viewing of “Go Fighting”

期數	播出日期	CSM50 城市網收視情況		
		收視率%	排名	收視份額%
第一期	2015年6月14日	1.191	2	4.55
第二期	2015年6月21日	1.65	2	5.26
第三期	2015年6月28日	1.854	1	6.21
第四期	2015年7月5日	2.127	1	6.83
第五期	2015年7月12日	2.379	1	7.9
第六期	2015年7月19日	2.742	1	9.24
第七期	2015年7月26日	2.57	1	8.75
第八期	2015年8月2日	2.718	1	8.54
第九期	2015年8月9日	2.9	1	8.73
第十期	2015年9月6日	1.54	3	4.73
第十一期	2015年9月13日	2.026	1	6.71
第十二期	2015年9月20日	2.11	1	6.82

Source: CSM, Phillip Securities (HK) Ltd.

Figure: Investment plan on Variety Show in 2018

序号	项目名称	制作进度
1	欢乐中国人2	正在播出
2	极限挑战4	筹备中
3	向往的生活2	筹备中
4	无限歌谣季	筹备中
5	你的故事我的歌	筹备中

Source: Company report, Phillip Securities (HK) Ltd.

PC gaming

Perfect launched in-house developed and licensed games, and mastered a variety of game engines, such as Angelica 3D game engine, Cube engine and Epatch 2D engine. The in-house developed games include “Perfect World”, “My Own Swordsman” and “Jade Dynasty”. “Jade Dynasty” is the most successful work for Perfect, which operated almost 10 years, and the latest version is called “Jade Dynasty 3”. The licensed games include “DOTA2”, “CS:GO” and “Crossout”, where the highest monthly gross billing for “DOTA2” even reached 100 million. These games all aim for e-sports. “DOTA2” holds international tournament every year, and the prizes for top three even reached 17 million USD, the highest prizes among the e-sports competition ever. In addition to the international competitions, Perfect also holds e-sports competition in China.

Figure: China DOTA2 SuperMajor



Source: Company website, Phillip Securities (HK) Ltd.

Mobile gaming

Most of the mobile games of Perfect are developed in-house, including “Jade Dynasty Mobile”, “The Sword and the Knife” Mobile, “The Return of the Condor Heroes” Mobile and “Legend of Condor Hero” Mobile, and “Dream book”. Many mobile games are adapted from the PC version, such as “Jade Dynasty Mobile” and “My Own Swordsman” Mobile. The average gross billing of “Jade Dynasty Mobile” in 2017 has reached 200 million. Perfect also released the games to other countries, where Taiwan has recorded a 50 million monthly gross billing in 2017. It is believed that Perfect will focus on Mobile gaming than PC gaming in the future.

Figure: In-house/Licensed games in 2018

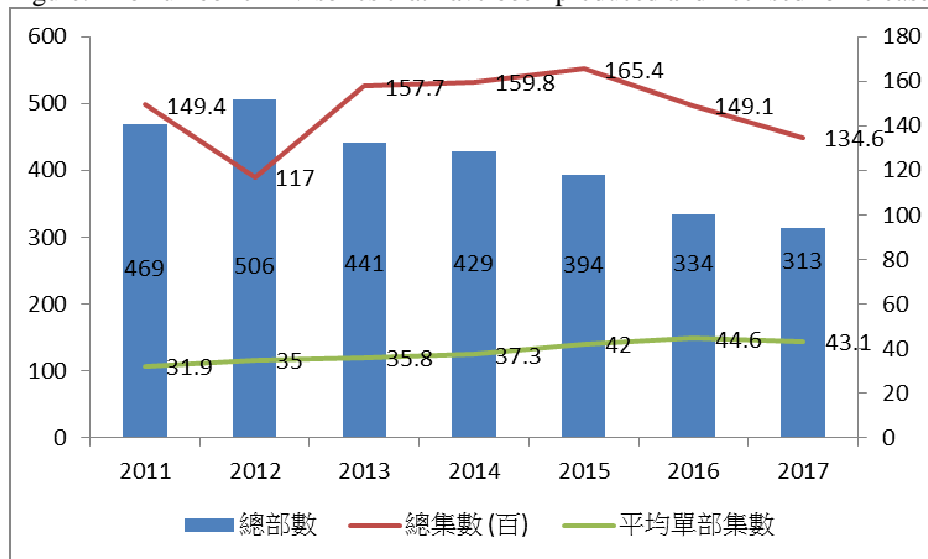
序号	游戏名称 (暂定)	游戏类型	自研/代理
1	边缘计划	PC端游	自研
2	新诛仙世界	PC端游	自研
3	深海迷航	主机游戏	自研
4	完美世界主机版	主机游戏	自研
5	非常英雄	PC端游+主机游戏	自研
6	Torchlight Online	PC端游+主机游戏	自研
7	Magic The Gathering	PC端游+主机游戏	自研
8	烈火如歌	移动游戏	自研
9	轮回诀	移动游戏	自研
10	武林外传官方手游	移动游戏	自研
11	云梦四时歌	移动游戏	自研
12	梦间集天鹅座	移动游戏	自研
13	完美世界手游	移动游戏	自研
14	神雕侠侣2	移动游戏	自研
15	新笑傲江湖手游	移动游戏	自研
16	我的起源	移动游戏	自研
17	失落的神域	移动游戏	自研
18	时代的崛起 (Rise of Ages)	移动游戏	自研
19	梦魇 (Nightmare)	移动游戏	自研
20	奥域: 王国崛起	移动游戏	自研
21	射雕三部曲	移动游戏	自研
22	面条人	独立游戏	代理
23	赦免者	独立游戏	代理
24	隐龙传	独立游戏	代理
25	洪潮之焰	独立游戏	代理

Source: Company report, Phillip Securities (HK) Ltd.

Industry overview

The number of TV series that have been produced and licensed for release has been declining since 2012 from 506 to 313. Yet, the average number of episode for single unit has steadily increased from 31.9 in 2011 to 43.1. The number of production on TV series has remained above 400 in 2003-2014. However, since January 1, 2015, after the launch of new policy “一劇兩星”, the production of TV series began to decrease, and for the first time, lower than 400, and fell to 313 in 2017. Under the previous 4+X policy, each TV series can be broadcasted simultaneously on up to four TV stations and several terrestrial channels, so the cost of TV series can be shared by multiple TV stations. Under “一劇兩星”, the same TV series should be aired on no more than 2 satellite TV channels each night during prime time. This undoubtedly increase the purchase cost of TV stations, where TV station will in turn require a higher quality of products. In light of this, we believe that the industry will gradually integrate, and low-quality drama producers will be eliminated. The number of outputs is going to be lower than the past, while the quality of works will significantly increase.

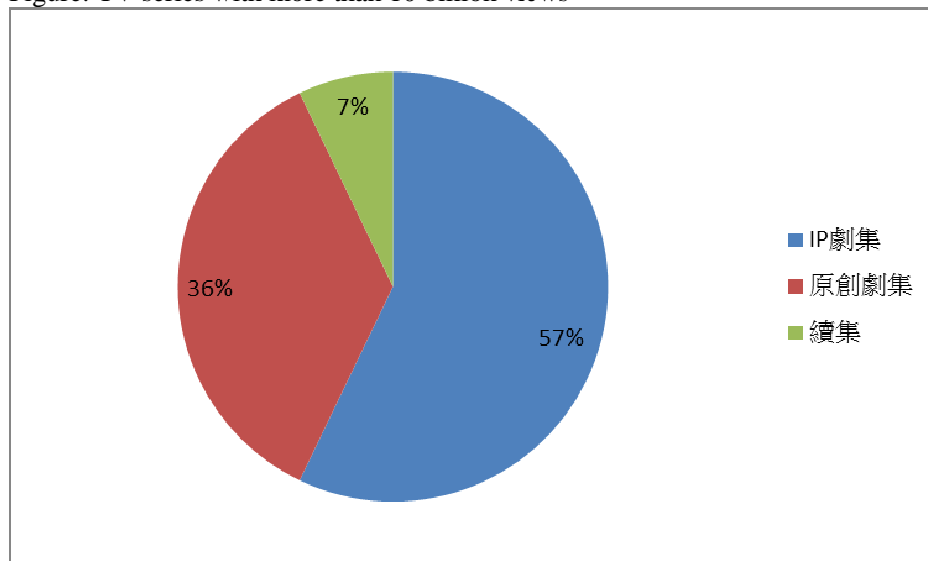
Figure: The number of TV series that have been produced and licensed for release



Source:中國電視劇產業發展報告, Phillip Securities (HK) Ltd.

In 2017, 57% of the TV series with more than 10 billion views are adapted, demonstrating that those dramas are more acceptable to audiences because they may be exposed to the original in advance or the original itself has gain certain popularity, so its adapted works are easier to be successful.

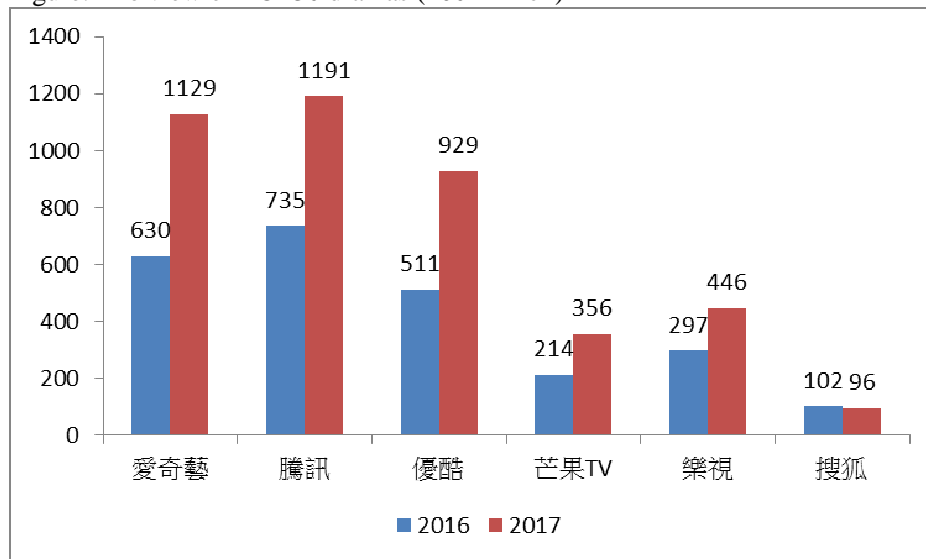
Figure: TV series with more than 10 billion views



Source:中國電視劇產業發展報告, Phillip Securities (HK) Ltd.

In 2017, except for Sohu, the view of TOP30 dramas significant increases, with iQiYi, Tencent and Youku increasing by 79.3%, 62% and 81.8% respectively. This shows that the audience's habit of watching TV series gradually shifts from TV to video platforms.

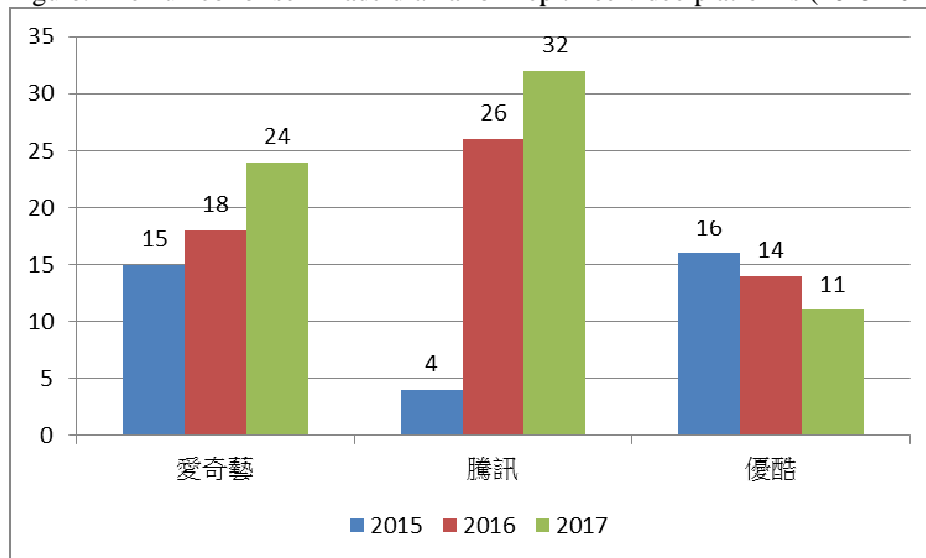
Figure: The view of TOP30 dramas (100 million)



Source:中國電視劇產業發展報告, Phillip Securities (HK) Ltd.

With the rise of the video platform, video platform operators began to create their own drama series, reducing the dependence on existing drama makers. Among them, Tencent's self-made dramas raised the most, from 4 in 2015 to 32 in 2017. In addition, iQiyi's self-made drama has also risen from 15 to 24, and only the number of Youku's self-made dramas has fallen. We believe that these three major video platforms will continue to enhance their own production level in the future, and it is likely to become a major competitor for existing drama makers.

Figure: The number of self-made drama for Top three video platforms (2015-2017)



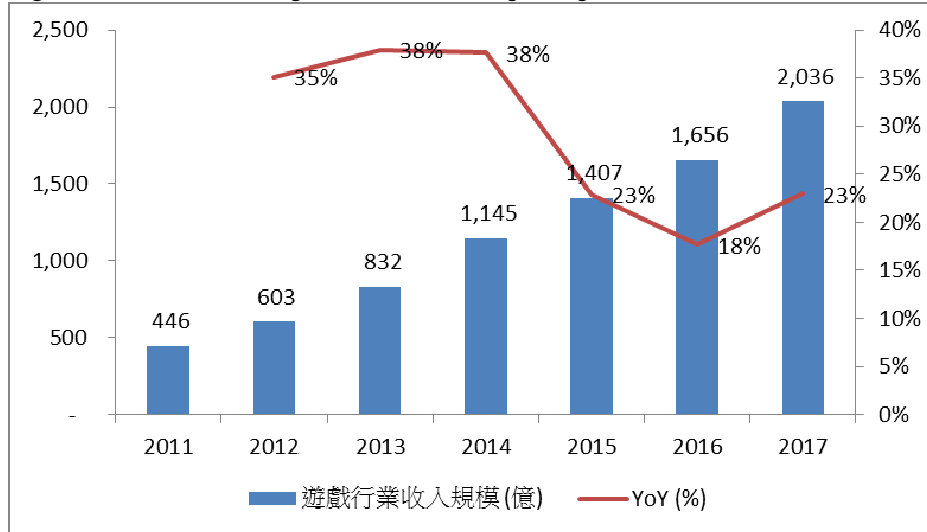
Source:中國電視劇產業發展報告, Phillip Securities (HK) Ltd.

The domestic gaming revenue has been climbing steadily, from 44.6 billion RMB in 2011 to 203.6 billion RMB in 2017, with 23% increase YoY. PC gaming revenue fall after 2015 and recorded a negative growth of 5%. However, it rebounded in 2017, mainly due to the strong performance of the survival game, "PUBG".

Mobile gaming revenue continued to grow, rising significantly from 1.7 billion RMB in 2011 to 116.22 billion RMB in 2017. However, the growth rate has slowed down, from the highest growth of 247% in 2013 to only 42% in 2017. The ARPU in mobile gaming kept rising, from RMB 17.9 in 2011 to RMB 129.12 in

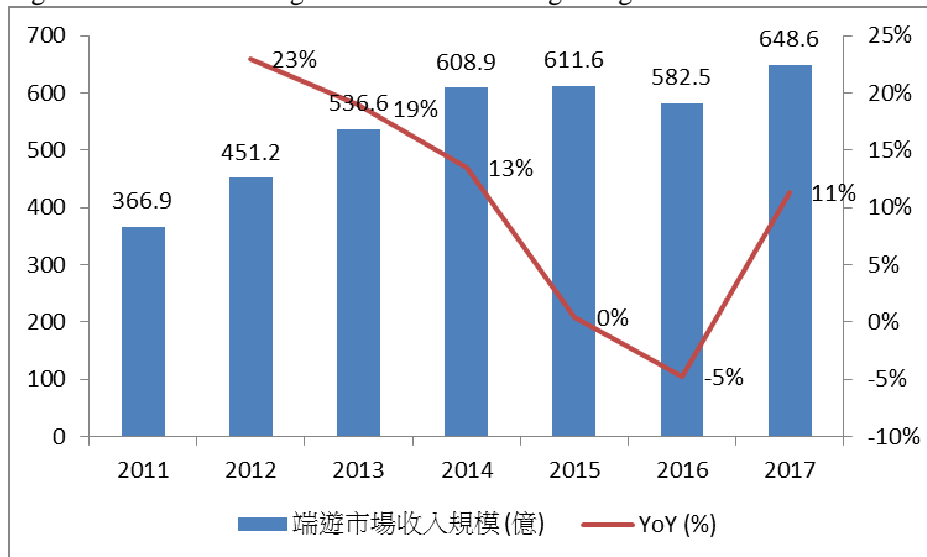
2017. We believe that the mobile gaming market will continue to grow steadily, but due to the base effect, the growth rate for revenue and ARPU is likely to decline.

Figure: The revenue and growth rate for the gaming market in China



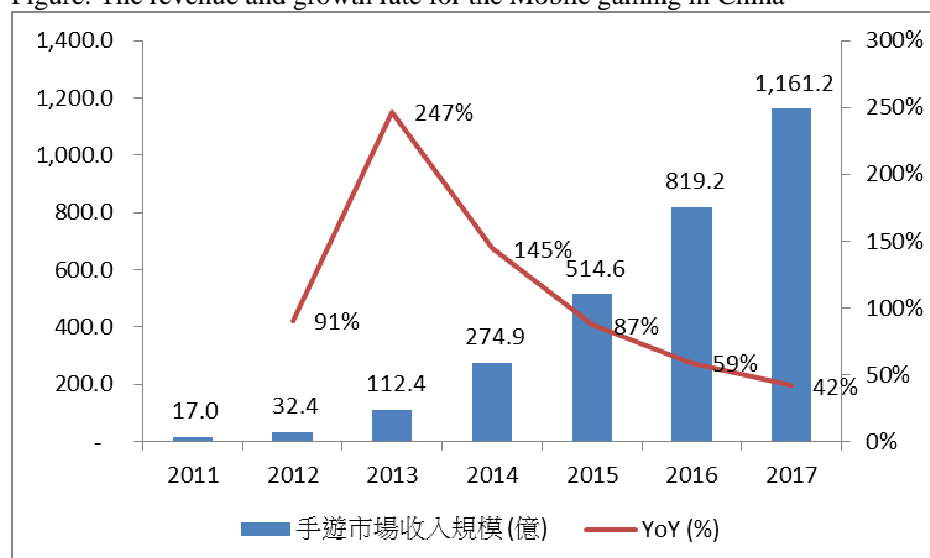
Source: 中國產業信息, Phillip Securities (HK) Ltd.

Figure: The revenue and growth rate for the PC gaming in China



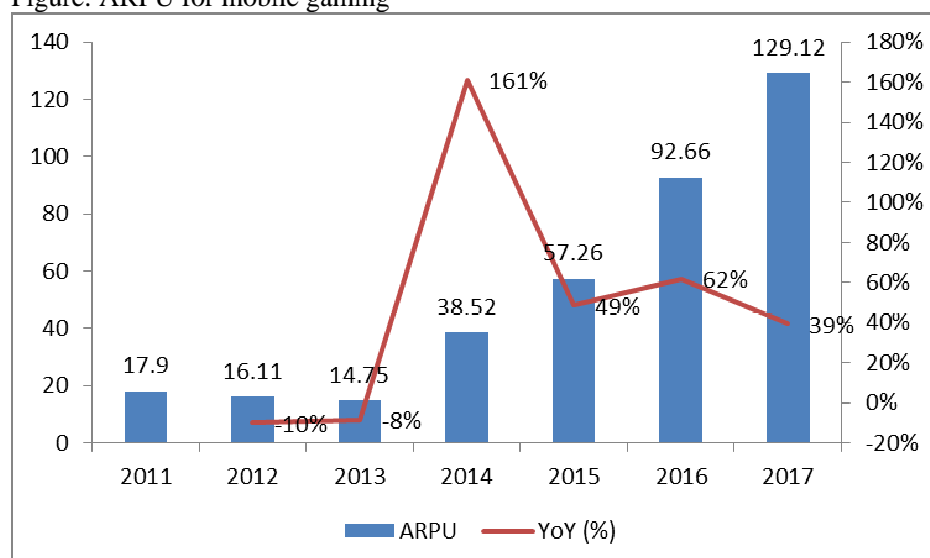
Source: 中國產業信息, Phillip Securities (HK) Ltd.

Figure: The revenue and growth rate for the Mobile gaming in China



Source:中國產業信息, Phillip Securities (HK) Ltd.

Figure: ARPU for mobile gaming



Source:中國產業信息, Phillip Securities (HK) Ltd.

Competitive advantage

Strong in-house R&D capabilities

Perfect has a strong in-house R&D capabilities. Angelica is the self-developed game engine by Perfect, and now is the third generation. The third generation of Angelica not only fully supports the PhysX physics engine, but also incorporates the world's top gaming technologies such as refined modeling, high-quality compressed normal map rendering, multi-threaded rendering and FFT-based fluid sea surface. The works that adopted this engine includes "My Own Swordsman", "Perfect World", "Jade Dynasty", and "Swordsman Online". Although the Angelica engine has been used to develop MMORPG, it is also used in a casual online game "Hot Dance Party." for the first time.

Figure: Graphic demonstration for “Swordsman Online”



Source: 178 新遊戲, Phillip Securities (HK) Ltd.

Diversified product, strong adaptation ability

Perfect has different divisions in its gaming business, such as PC games, Mobile games, Browser games, and Console games. Besides, Perfect is able to both develop and operate the game, which enhance the sustainable development of the business and the ability to resist risks. On the other hand, the diversified product mix will facilitate the adaption, exploring the maximum value from the original. “Jade Dynasty Mobile” is an example of mobile gaming adaption. The retention rate of players is as high as 83.82% for two close betas, and the payment rate is also as high as 54%.

Figure: Perfect World’s game products

客戶端遊戲	手機遊戲	單機遊戲	主機遊戲	
誅仙3 笑傲江湖OL 神魔大陸2 赤壁 神鬼傳奇 完美世界 熱舞派對MAX HEX CS:GO 創世戰車	完美國際 武林外傳 夢幻誅仙2 靈山鏢鏢錄 聖鬥士星矢OL 神鬼世界 神鵝俠侶 口袋西遊 DOTA2	誅仙手遊 武林外傳官方手遊 輪迴訣 西遊伏妖篇 射雕英雄傳手遊 夢間集 遮天3D 最終幻想：覺醒 神鵝俠侶手遊	射雕英雄傳3D 火炬之光 倚天屠龍記 舞動全城 青靈志 神魔大陸 烈火如歌 網頁遊戲 TOUCH	HOB 3對3街頭籃球 三國戰紀 無冬之夜OL 遊戲平台 完美遊戲平台 完美電競平台

Source: Company website, Phillip Securities (HK) Ltd.

Gaming and Film & Drama complement one another

In addition to the mobile gaming adaption for Pc game, it is very common to adapt film and drama works into mobile games. Therefore, robust synergy can be created by the gaming and Film & Drama business for Perfect. Adapted from a novel written by Ming Xiaoxi, the TV series “Agni Cantabile” released in 1 Mar 2018 via Youku, and became the first webisode that exceeded 5 billion views in 2018. As of 21 Apr 2018, the views have reached 7.7 billion. After the end of the webisode, Perfect and AlibabaGames launched a mobile game with same name immediately. It became the 9th in the App Store free app list on the first day of the launch. The success of the drama can serve as a promotional role to

the mobile game, and the drama can boost the interest of the players, so that the chances are the mobile game will be successful.

Cooperate with Valve to run game platform Steam China

In June 2018, Perfect and the renowned game developer Valve Corporation will cooperate to establish, operate and promote the computer (PC) digital distribution platform Steam China in mainland China. Under the agreement, Valve provides software licensing and related technical support for the launch and operation of Steam China, and authorizes the use of its trademarks and related promotional materials in Steam China's promotion to Perfect; Perfect is responsible for introducing overseas game products to Steam China and conducting localization, and is responsible for recommending and supporting the issuance and operation of Chinese game products in Steam China. By partnering with Valve to run Steam China, it is able to expand its gaming business, not only in game products, but also into the game platform.

Professional production team

Perfect's experienced production team ensures the quality of works in the future, allowing the direction of "Fine quality". The main production teams of Perfect include Xinbaoyuan, Huamei Shikong, Perfect Pengrui, Perfect Jianxin and Jianghe Studio, which are led by well-known directors and producers such as Zhao Baogang, Teng Huatao, Liu Jiang, Guo Jingyu, He Jing and Wu Yujiang. . For example, Zhao Baogang won the "Flying Awards Best Director Award", "Golden Eagle Award for Best Director Award" and "Hua Ding Award Most Popular Director", while directed by Teng Huatao, the low-cost romance "Love in not blind" recorded 350 million RMB box office, becoming a dark horse in that year.

Figure: Production team of Perfect World

製作團隊	核心人物	主要作品	成就
鑫寶源	趙寶剛	《渴望》、《編輯部的故事》、《一場風花雪月的故事》、《永不瞑目》、《像霧像雨又像風》、《拿什麼拯救你，我的愛人》、《別了，溫哥華》、《夜雨》、《奮鬥》、《夜幕下的哈爾濱》、《我的青春誰做主》、《婚姻保衛戰》、《男人幫》、《北京青年》、《老有所依》、《青年醫生》及《深海利劍》	曾獲“飛天獎最佳導演獎”、“金鷹獎最佳導演獎”及“華鼎獎最受歡迎導演”
華美時空	滕華濤	《失戀33天》、《等風來》、《浮沉》、《時尚女編輯》、《我為兒孫當北漂》、《長大》、《二胎時代》、《你好，喬安》及《我的！體育老師》	執導的《失戀33天》以890萬投資規模收穫3.5億元票房成績成為當年票房市場的最大黑馬
完美蓬瑞	劉江	《媳婦的美好時代》、《黎明之前》、《誓言今生》、《亂世三義》、《咱們結婚吧》、《咱們相愛吧》及電影《咱們結婚吧》	執導的《媳婦的美好時代》，為中國電視劇史上為數不多的“獲獎大滿貫”作品；《黎明之前》在豆瓣網評分9.2，是雄冠諜戰劇評分榜首的口碑佳作；而《咱們結婚吧》也成為創造了中國電視劇收視記錄的收視王牌劇
完美建信	郭靖宇	《鐵梨花》、《紅娘子》、《火藍刀鋒》、《打狗棍》、《勇敢的心》、《大秧歌》及《射雕英雄傳》	曾獲得獲得“飛天獎”、“金鷹獎”、“五個一工程獎”“白玉蘭獎”以及“華鼎獎”等各項大獎
江河工作室	何靜、吳玉江	麻辣女兵》、《麻辣女王》、《神犬奇兵》、《神犬小七第一季》、《麻辣變形計第一季》、《神犬小七第二季》、兒童音樂劇《神犬小七》及《神犬小七第三季》	《神犬奇兵》和《神犬小七第一季》首播累計到達率73.55%，推及觀眾規模近10億。《神犬小七第二季》榮獲第12屆中美電影節金天使獎

Source: Company website, Phillip Securities (HK) Ltd.

Earnings forecast

We expect revenue from Film & Drama to reach 1.78 billion in 2018, drop to 1.68 billion in 2019, 6% decrease YoY, due mainly to the loss on revenue from cinema business. In addition, the revenue from gaming is expected to reach 7.03 billion, and to 8.98 billion in 2019, an increase of 27.6%. Among them, the mobile game business will record the highest growth. In 2018, Perfect and Tencent will launched two mobile games 《完美世界手游》和《雲夢四時歌》 and it is expected to achieve an increase of about 40% in both 18 and 19 years, while the PC gaming is gradually rebounded due to the e-sports boom.

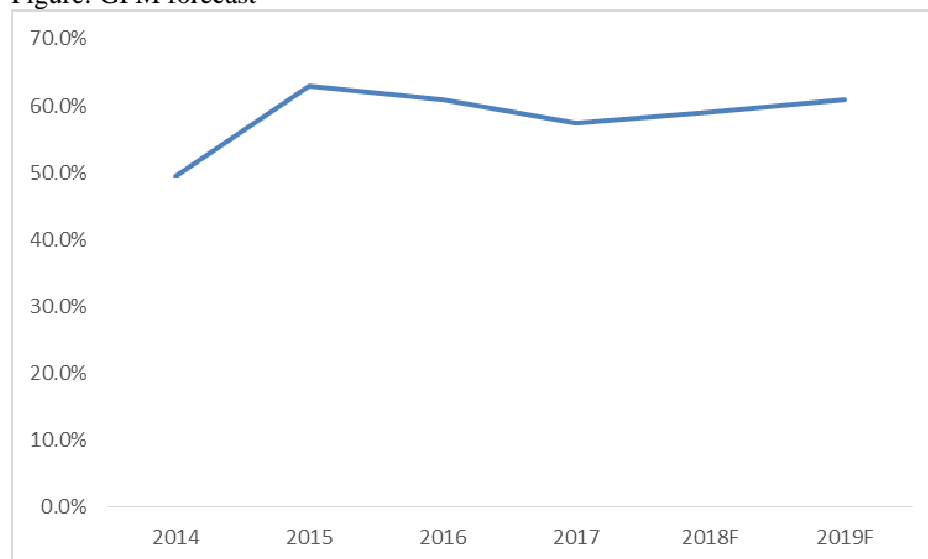
Figure: Revenue forecast

	2014	2015	2016	2017	2018F	2019F
影視						
營業收入	925,784	1,129,371	1,455,236	2,279,434	1,784,212	1,675,895
電影	68,562	103,456	0	0	65,000	68,250
電視劇	749,072	923,831	1,102,189	1,128,169	1,184,577	1,267,498
影院	0	0	48,577	842,742	210,686	0
經紀及其他	108,150	102,084	304,469	308,523	323,949	340,147
遊戲						
營業收入	-	3,763,697	4,703,596	5,650,381	7,034,706	8,975,190
端遊	-	2,022,729	2,088,588	1,991,386	2,031,214	2,112,463
手遊	-	1,482,130	2,155,153	3,078,667	4,310,134	6,034,188
主機遊戲	-	189,759	408,545	519,632	623,558	748,270
其他	-	69,081	51,310	60,695	69,799	80,269
總營業收入	925,784	4,893,069	6,158,832	7,929,815	8,818,918	10,651,084

Source: Company reports, Phillip Securities (HK) Ltd.

As the gross profit margin of the gaming business is higher than that of the Film & drama, as the revenue proportion of the gaming business gradually increases, we believe that the overall gross profit margin will gradually increase, which is 59%/61% in 2018 and 19, respectively.

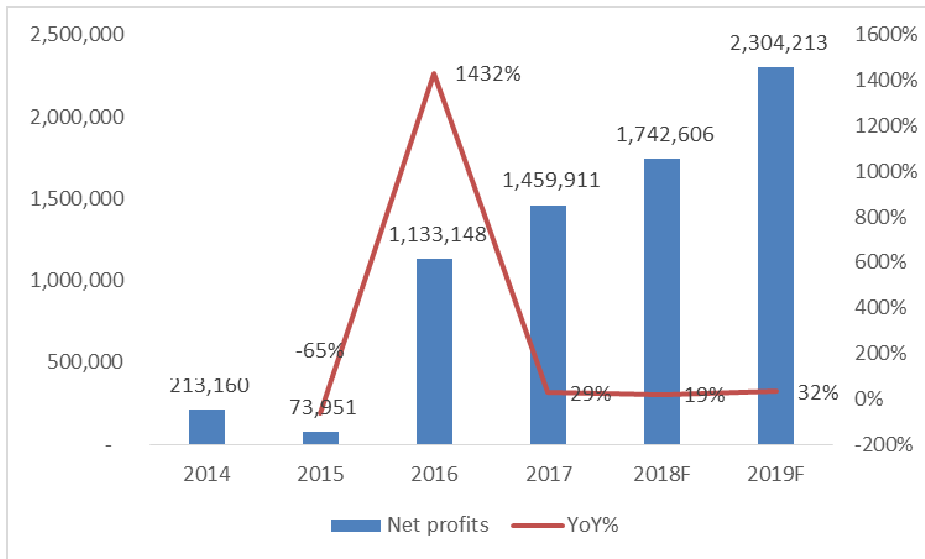
Figure: GPM forecast



Source: Company reports, Phillip Securities (HK) Ltd.

We forecast that net profit in 2018 will reach 1.74 billion RMB, up 19% YoY; to 2.30 billion RMB in 2019, with 32% growth YoY.

Figure: Net profit forecast



Source: Company reports, Phillip Securities (HK) Ltd.

Valuation

Perfect has strong game development and film production capabilities, and corporate with foreign companies in order to explore the oversea market. Besides, Perfect is one of the few who has gaming and film & drama business in the market. We believe those two businesses could create a robust synergy, so Perfect can maintain rapid growth in the future. Assuming a target P/E of 23x in 2018, we initiate a “Accumulate” rating and give a target price of \$31.19 with a potential upside of 11.0%.

Figure: Peer comparison

Source: Wind, Phillip Securities (HK) Ltd.

代碼	證券簡稱	總市值	每股收益			市盈率 PE		
			17A	18E	19E	17A	18E	19E
002555.SZ	三七互娛	25477.19	0.76	0.93	1.12	15.72	12.82	10.68
300418.SZ	崑崙萬維	23061.96	0.89	1.15	1.37	23.09	17.44	14.62
300459.SZ	金科文化	18371.89	0.25	0.57	0.71	46.64	16.43	13.13
002174.SZ	遊族網絡	16934.20	0.76	1.21	1.56	25.82	15.79	12.23
002517.SZ	愷英網絡	13646.96	1.12	0.83	0.95	8.48	7.62	6.71
300315.SZ	掌趣科技	11721.47	0.10	0.31	0.35	44.42	13.74	12.18
603444.SH	吉比特	8878.89	8.53	9.61	11.35	14.56	12.85	10.88
PE Average						25.5	13.8	11.5

代碼	證券簡稱	總市值	每股收益			市盈率 PE		
			17A	18E	19E	17A	18E	19E
002739.SZ	萬達電影	61110.31	1.29	1.64	2.07	40.32	31.81	25.19
600977.SH	中國電影	29218.55	0.52	0.64	0.74	30.27	24.58	21.28
300251.SZ	光線傳媒	29072.06	0.28	0.80	0.41	35.66	12.44	24.31
000681.SZ	視覺中國	18740.45	0.42	0.55	0.72	64.44	48.37	37.40
300027.SZ	華誼兄弟	17867.82	0.30	0.36	0.44	21.57	17.67	14.76
300133.SZ	華策影視	17638.08	0.36	0.44	0.56	27.73	22.35	17.72
603103.SH	橫店影視	14541.30	0.80	0.95	1.16	43.99	33.87	27.60
PE Average						37.7	27.3	24.0

Risk

1. Lower-than-expected growth in Mobile gaming
2. Giant entering the film & drama production
3. Loss in production team

Financials

FYE DEC	FY15	FY16	FY17	FY18F	FY19F
Valuation Ratios					
P/E (X), adj	47.55	31.68	25.66	20.72	15.78
P/B (X)	15.32	5.40	4.89	3.93	3.28
Dividend Yield (%)	0.1%	0.3%	0.6%	1.0%	1.3%
Per share data (RMB)					
EPS, (Basic)	0.591	0.887	1.095	1.356	1.780
EPS, (Diluted)	0.591	0.887	1.095	1.356	1.780
DPS (RMB)	0.03	0.09	0.170	0.271	0.356
BVPS	1.83	5.20	5.75	7.14	8.57
Growth & Margins (%)					
Grwoth					
Revenue	428.5%	25.9%	28.8%	11.2%	20.8%
EBT	-66.2%	1233.4%	32.3%	21.9%	33.0%
Net Income	-65.3%	1432.3%	28.8%	19.4%	32.2%
Margins					
Gross margin	63.0%	61.0%	57.4%	59.0%	61.0%
EBT margin	1.8%	19.5%	20.0%	22.0%	24.2%
Net Profit Margin	1.5%	18.4%	18.4%	19.8%	21.6%
Key Ratios					
ROE	28.1%	16.2%	18.9%	20.5%	22.7%
Income statement (RMB mn)					
Revenue	4,893	6,159	7,930	8,819	10,651
Gross Profit	3,081	3,755	4,549	5,203	6,497
EBT	90	1,201	1,589	1,938	2,577
Income tax	(149)	(223)	(189)	(260)	(344)
Net profit	74	1,133	1,460	1,743	2,304
Minority Interest	(60)	(33)	(45)	(40)	(36)
Net profit for owners	134	1,166	1,505	1,783	2,340

Source: Company, Wind, Phillip Securities (HK) Research
(Financial figures as at 30 July 2018)

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Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within ± 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel : (65) 6533 6001
Fax : (65) 6535 6631
Website: www.poems.com.sg

HONG KONG

Phillip Securities (HK) Ltd
Exchange Participant of the Stock Exchange of Hong Kong
11/F United Centre 95 Queensway
Hong Kong
Tel (852) 22776600
Fax (852) 28685307
Websites: www.phillip.com.hk

INDONESIA

PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel (62-21) 57900800
Fax (62-21) 57900809
Website: www.phillip.co.id

THAILAND

Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel (66-2) 6351700 / 22680999
Fax (66-2) 22680921
Website: www.phillip.co.th

UNITED KINGDOM

King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel (44-20) 7426 5950
Fax (44-20) 7626 1757
Website: www.kingandshaxson.com

AUSTRALIA

PhillipCapital Australia
Level 12, 15 William Street,
Melbourne, Victoria 3000, Australia
Tel (613) 96188238
Fax (613) 92002272
Website: www.phillipcapital.com.au

MALAYSIA

Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel (603) 21628841
Fax (603) 21665099
Website: www.poems.com.my

JAPAN

PhillipCapital Japan K.K.
Nagata-cho Bldg.,
8F, 2-4-3 Nagata-cho,
Chiyoda-ku, Tokyo 100-0014
Tel (81-3) 35953631
Fax (81-3) 35953630
Website: www.phillip.co.jp

CHINA

Phillip Financial Advisory (Shanghai) Co. Ltd
No 436 Hengfeng Road,
Greentech Unit 604,
Postal code 200070
Tel (86-21) 51699400
Fax (86-21) 63532643
Website: www.phillip.com.cn

FRANCE

King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel (33-1) 45633100
Fax (33-1) 45636017
Website: www.kingandshaxson.com

UNITED STATES

Phillip Futures Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1.312.356.9000
Fax +1.312.356.9005