

# Perfect World (002624.SZ)

## Remarkable performance in mobile gaming business

Hong Kong | TMT | Company Report

16 August 2019

### 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. Assuming a target P/E of 23x in 2019, we derived a TP of \$34.37, 0.3% higher than previous TP. We maintain a “Buy” rating, with a potential upside of 30.8%. (Closing price at 14 Aug 2019)

### Interim result update

The revenue (excluding the cinema business) grew by 12.44% YoY, reaching RMB 3,656 mn. The net profit attributable to the owners was RMB 1,020 mn, up by 30.5%, while the net net profit attributable to the owners excluding the non-recurring gains and loss was RMB 973 mn, rose by 37.67%. The operating cash flow was RMB 167 mn. The gross profit margin was up from 59.6% in 18H1 to 68.6% in 19H1.

### Business update

#### Gaming

The gaming revenue reached RMB 2,878 mn, up by 8.06% YoY. In terms of PC gaming, the performance of “Perfect World”, “Zhu Xian”, “DOTA2” and “CS:GO” all remained persistent. The Group are developing a new game, called “Xin Zhu Xian Shi Jie” based on the IP of “Zhu Xian”. In terms of Mobile gaming, the revenue boosted significantly by 39.4%, thanks to the strong performance of “Perfect World Mobile” launched in this March. It ranked the first in the IOS billboard for about 20 days. The “Legend of Condor Hero Mobile” has also launched on July along with a top ranking in IOS. The Group are still developing games, such as “Wo De Qi Yuan”, “Meng Huan Xin Zhu Xian”, “Xin Shen Mo Da Lu” and etc, which will fuel the growth in mobile gaming in the next few years.

#### Films & dramas

The revenue from films & dramas dropped by 22.4% to RMB 779 mn, due mainly to the sales of cinema business. In terms of dramas, the Group has launched “I Will Never Let You Go”, “Qing Chun Dou”, “In Youth” and etc. “I Will Never Let You Go” went into the top 3 in weekly drama of Zhejiang Television, while “In Youth” also ranked the top based on the CSM55 ratings. In terms of films, the Group planned to maintain its strategic cooperation with Universal Pictures on film production.

### Buy

**CMP** CNY 26.27

(Closing price at 14 Aug 2019)

**TARGET** CNY 34.37 (+30.8%)

#### COMPANY DATA

O/S SHARES (MN) :	1,293
MARKET CAP (RMBMN) :	33,959
52 - WK HI/LO (RMB):	36.54/19.75

#### SHARE HOLDING PATTERN , %

Perfect World holdings	34.48
Chi Yufeng	12.04

#### PRICE PERFORMANCE , %

	1M	3M	1Y
Perfect World	10.05	1.04	-5.50
CSI	-3.75	-1.73	7.66

#### RETURN VS. CSI



Source: Aastocks, Phillip Securities (HK) Research

#### KEY FINANCIALS

RMB mn	FY16	FY17	FY18E	FY19E
<b>Revenue</b>	7,930	8,034	8,535	10,186
<b>Net Profit</b>	1,463	1,759	2,012	2,431
<b>EPS, RMB</b>	1.095	1.298	1.494	1.806
<b>PER, x</b>	23.99	20.24	17.58	14.55
<b>BVPS, RMB</b>	5.75	6.42	7.72	9.17
<b>P/BV, x</b>	4.43	3.97	3.40	2.87
<b>ROE, %</b>	18.9	20.8	21.0	21.4

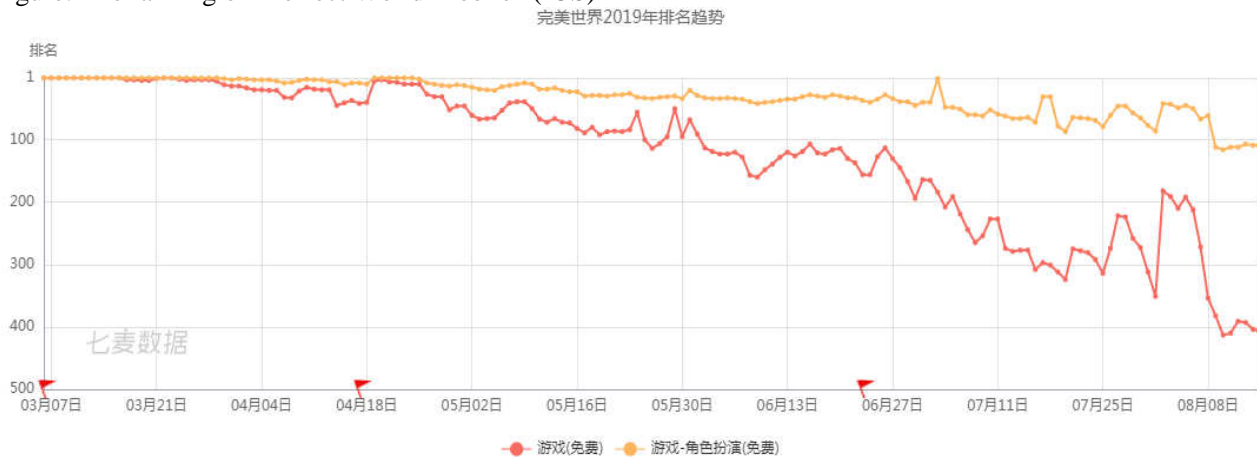
Source: Company reports, Phillip Securities Est.

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Figure: The ranking of “Perfect World Mobile” (IOS)



Source: 七麦數據, Phillip Securities (HK) Ltd.

## Valuation

As the revenue growth in 19H1 of PC and console gaming was lower than expected, we lower the revenue in 2019F by 8.4% to 6.4%. However, we saw a significant improvement in GPM and a good cost control in both selling and administrative expenses. As a result, we only lower the net profit growth by 1.3% to 14.3%. Assuming a target P/E of 23x in 2019, we derived a TP of \$34.37, 0.3% higher than previous TP due to the previous share buyback. We maintain a “Buy” rating, with a potential upside of 30.8%.

## Risk

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

## Financials

FYE DEC	FY16	FY17	FY18	FY19F	FY20F
<b>Valuation Ratios</b>					
P/E (X), adj	29.62	23.99	20.24	17.58	14.55
P/B (X)	5.05	4.57	4.09	3.40	2.87
Dividend Yield (%)	0.2%	0.6%	0.7%	0.9%	1.0%
<b>Per share data (RMB)</b>					
EPS, (Basic)	0.887	1.095	1.298	1.494	1.806
EPS, (Diluted)	0.887	1.095	1.298	1.494	1.806
DPS (RMB)	0.06	0.170	0.195	0.224	0.271
BVPS	5.20	5.75	6.42	7.72	9.17
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Revenue	25.9%	28.8%	1.3%	6.2%	19.3%
Operating profit	1233.4%	32.6%	18.8%	19.5%	21.0%
Net Income	1432.3%	29.1%	20.3%	14.3%	20.8%
<b>Margins</b>					
Gross margin	61.0%	57.4%	55.8%	63.5%	64.0%
Operating profit margin	19.5%	20.1%	23.6%	26.5%	26.9%
Net Profit Margin	18.4%	18.5%	21.9%	23.6%	23.9%
<b>Key Ratios</b>					
ROE	16.2%	18.9%	20.8%	21.0%	21.4%
<b>Income statement (RMB mn)</b>					
Revenue	6,159	7,930	8,034	8,535	10,186
Gross Profit	3,755	4,549	4,484	5,420	6,519
EBT	1,201	1,593	1,892	2,261	2,736
Income tax	(223)	(189)	(156)	(274)	(331)
Net profit	1,133	1,463	1,759	2,012	2,431
Minority Interest	(33)	(45)	53	80	97
Net profit for owners	1,166	1,505	1,706	1,932	2,334

Source: Company, Wind, Phillip Securities (HK) Research  
 (Financial figures as at 14 Aug 2019)

**PHILLIP RESEARCH STOCK SELECTION SYSTEMS**

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 $\pm$ 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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