

# Razer (1337 HK)

Razer expects FY20 Breakeven  
Hong Kong | Technology | Update

10 Feb 2021

## Investment Summary

RAZER("The Company") has issued a positive profit alert, expecting a breakeven profit or loss on a GAAP basis for the financial year ended December 31, 2020 as compared to a loss of US\$83.5 million for the financial year ended December 31, 2019.

According to the notices, the Company revenue growth is expected to be at least 40% year-on-year for the financial year ended December 31, 2020, with broad-based growth across the Razer ecosystem of hardware, software and services. In particular, Razer's peripheral equipment and computer system products have grown more than expected due to the holiday effect. For example, during the "11-11 Shopping Festival" last year, the network-wide turnover increased by as much as 45% year-on-year, and the cumulative number of visitors exceeded 4.8 million. Among them, the sales of wireless mouse products increased by 210% year-on-year, and the sales of DeathAdder series mice exceeded 260,000; the sales of Razer Viper Ultimate gaming mouse exceeded 60,000, and it ranked first in the sales charts of Tmall and JD.com. In terms of gaming keyboards, sales of Razer BlackWidow series gaming keyboards exceeded 18,000, and sales of Razer Huntsman series gaming keyboards exceeded 8,000. For gaming headsets, the sales of Kraken series gaming headsets exceeded 30,000, and the sales of Hammerhead True Wireless Earbuds exceeded 5,000. The company's gaming notebooks ranked second in the top-end gaming notebook turnover rankings of JD.com. We expect its hardware revenue to reach US\$994 million in 2020, a year-on-year increase of 39.25%. But next year (2021) due to the high base effect, we expect hardware revenue next year (2021) to reach 1.017 billion US dollars, an increase of 2.31% year-on-year.

In terms of software and services, the Company's management expressed confidence in developing the software platform by expanding user base and user activity, and continuing to invest to expand the company's fast-growing high-profit service business. The Company continues to expand in regional countries such as Malaysia and the Philippines. We expect its software and services revenue to reach US\$141 million in 2020, a year-on-year increase of 82.7%. We expect software and service revenue to reach US\$246 million next year, an increase of 75% year-on-year.

The Company also announced on February 3, 2021 that it intends to acquire console accessories brand Controller Gear. The acquisition of Controller Gear, which specializes in creating licensed peripherals and merchandise for popular console brands including Xbox, PlayStation and Nintendo, will strengthen Razer's position in the fast-growing premium console market as the entire gaming market is forecast to cross its first US\$200 billion year in 2023.

## Valuation and Investment Recommendation

In summary, as Razer is the world's leading young and millennial brand, the Company expects its business to rise steadily. We have raised the 2020 revenue to US\$1.15 billion (+7.7%). On the other hand, given the Company recently repurchased some of its shares in December, We raised the Company's 2020/2021/2022 revenue per share of US \$0.13/0.14/0.17(+7.89%/+0.17%/+0.17%), twelve-month target price is raised to HKD3.36 (previous HKD3.27), corresponding to 2020/2021/2022 P/S ratio of 3.33x/3.00x /2.53x. Accumulate rating is rated. (Exchange rate: 7.78 HKD/USD) (Current price as of 8 February 2021)

## Accumulate (Downgrade)

Current market price HKD2.94  
(Closing price as at 8<sup>th</sup> Feb 2021)  
Target price HKD 3.36 (+16%)

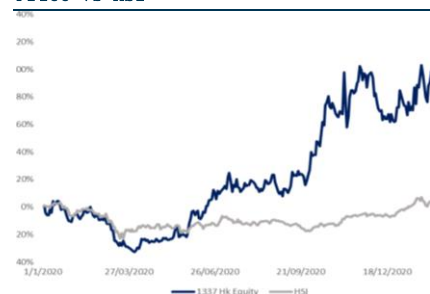
### COMPANY DATA

O/S SHARES (MN) :	8,868
MARKET CAP(HKD MN) :	260.75
52- WK HI/LO (HKD) :	2.90/0.89

### Major Shareholder %

Chen Family	31.81
Risoluto	18.73

### Price vs HSI



Source: Wind, PSHK

### KEY FINANCIALS

USD'mm	FY19	FY20E	FY21E	FY22E
Net Sales	821	1,151	1,276	1,516
Net Profit	(84)	11	34	71
EPS, USD	(0.01)	0.00	0.00	0.01
P/S x	4.08	2.91	2.63	2.21
BVPS, USD	0.06	0.06	0.07	0.07
P/BV, x	40.37	40.76	39.60	35.31
ROE%	(14.5)	0.2	2.8	10.85
ROA%	(8.4)	0.1	1.5	5.5

Source: Company reports, PSHK

Closing price as of 8 February 2021

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## Financial statements

### Key financial data

FYE DEC	FY18	FY19	FY20E	FY21E	FY22E
<b>Valuation Ratio</b>					
P/S ratio	4.70	4.08	2.91	2.63	2.21
P/B ratio	35.06	40.37	40.76	39.60	35.31
<b>Per share data (USD)</b>					
EPS	-0.01	-0.01	0.00	0.00	0.01
Book value per share	0.07	0.06	0.06	0.07	0.07
Revenue per share	0.08	0.09	0.13	0.14	0.17
<b>Growth &amp; Margin</b>					
Revenue growth	38%	15%	40%	11%	19%
Operating income growth	39%	12%	100%	4375%	387%
Net profit growth	41%	15%	101%	1369%	326%
Operating income margin	-14%	-11%	0%	1%	5%
Net profit margin	-14%	-10%	0%	1%	5%
<b>Key Ratios</b>					
ROE	-14.8%	-14.5%	0.2%	2.8%	10.8%
ROA	-9.5%	-8.4%	0.1%	1.5%	5.5%

Closing price as at 8 February 2021

Source: Company data, PSHK

### Consolidated Statement of Profit or Loss and Other Comprehensive income

(USD '000)						
Fiscal year	2017A	2018A	2019A	2020E	2021E	2022E
Fiscal year end date	12/31/17	12/31/18	12/31/19	12/31/20	12/31/21	12/31/22
Peripherals	338,717	429,606	444,902	682,306	703,281	773,609
Systems	137,001	185,919	269,077	311,921	313,870	315,235
Software and Services	10,604	49,564	77,027	140,734	246,285	418,684
Others	31,615	47,350	29,789	15,574	12,426	8,554
<b>Revenue</b>	<b>517,937</b>	<b>712,439</b>	<b>820,795</b>	<b>1,150,535</b>	<b>1,275,861</b>	<b>1,516,082</b>
Cost of Sales	(366,912)	(542,361)	(652,732)	(869,422)	(942,526)	(1,077,330)
<b>Gross Profit</b>	<b>151,025</b>	<b>170,078</b>	<b>168,063</b>	<b>281,113</b>	<b>333,336</b>	<b>438,752</b>
Sales and marketing expenses	(90,041)	(117,995)	(112,675)	(132,312)	(140,345)	(151,608)
Research and development expenses	(80,809)	(76,298)	(52,418)	(63,279)	(76,552)	(90,965)
General and administrative expenses	(143,589)	(75,383)	(89,267)	(86,290)	(102,069)	(121,287)
Impairment of goodwill and other assets	-	-	(9,525)	-	-	-
<b>Loss from operations</b>	<b>(163,414)</b>	<b>(99,598)</b>	<b>(95,822)</b>	<b>(768)</b>	<b>14,370</b>	<b>74,892</b>
Other non-operating (expenses)/income	(3,147)	(1,857)	6,188	395	1,575	2,719
<b>Operating profit (EBIT)</b>	<b>(166,561)</b>	<b>(101,455)</b>	<b>(89,634)</b>	<b>(373)</b>	<b>15,946</b>	<b>77,612</b>
Finance income	1,985	12,218	13,193	8,798	3,675	3,852
Finance costs	(9)	(310)	(1,375)	(1,754)	(506)	-
<b>Loss before income tax</b>	<b>(164,585)</b>	<b>(89,547)</b>	<b>(77,816)</b>	<b>6,671</b>	<b>19,114</b>	<b>81,463</b>
Taxes	(1,254)	(8,361)	(5,654)	(5,464)	(1,389)	(5,919)
<b>(Loss)/Profit for the year</b>	<b>(165,839)</b>	<b>(97,908)</b>	<b>(83,470)</b>	<b>1,207</b>	<b>17,725</b>	<b>75,544</b>
<b>Non-controlling interests</b>	<b>(1,819)</b>	<b>(942)</b>	<b>709</b>	<b>71</b>	<b>1,035</b>	<b>4,413</b>
<b>(Loss)/profit attributed to equity shareholder</b>	<b>(164,020)</b>	<b>(96,966)</b>	<b>(84,179)</b>	<b>1,136</b>	<b>16,690</b>	<b>71,132</b>

Source: Company data, PSHK

**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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