

# Friendtimes (6820 HK)

**FoE has set highest monthly revenue record, the company has a strong pipeline in the upcoming years**

Hong Kong | Game Sector | Update Report

## Investment Summary

### The company's 2020 result is in line with expectation

The company's 2020 result meets our previous expectation. The revenue for 2020 was RMB 2.18 billion (+29.2% YoY). The YoY rise was mainly driven by the strong performance of The Fate of the Empress (浮生為卿歌). In terms of the geographical breakdown, the revenue generated from China region and overseas region were RMB 1.71 billion (+53.0% YoY)/RMB 0.47 billion (-17.7% YoY), respectively. As at 31 December 2020, the company has released and is operating 34 mobile games in different languages worldwide, and the accumulated total number of registered users reached 130.8 million (+21.2% YoY). Further, the company has strengthened its monetization ability in 2020, the monthly average revenue per paying user (ARPPU) in 2020 was RMB 715.5 (+34.6% YoY).

The company's 2020 GP was 1.47 billion (+33.2% YoY), with a GPM of 67.3% (+2.0ppts YoY). The 2020 S&M expense was RMB 0.61 billion (+55.7% YoY), with expense ratio of 28.1% (+4.8ppts YoY). The increase in both S&M expense and expense ratio in 2020 was mainly attributable to the fact that the 1) the company had no new title launched in 2019, hence the 2019 S&M expense was at a low cardinal number 2) the company has invested a lot on the promotion of The Fate of the Empress (浮生為卿歌) in 1H20. The 2020 R&D expense was RMB 0.26 billion (+18.4% YoY), with respective expense ratio at 12.1% (-1.1ppts YoY). The 2020 admin expense was RMB 46.33 million (-25.4% YoY), with respective expense ratio at 2.1% (-1.6ppts YoY). The drop in both admin expense and admin expense ratio YoY were because the admin expense in 2019 included some one off items such as listing expenses. The company recorded a NP of RMB 0.50 billion (+21.2% YoY), which is in line with our forecast of RMB 0.52 billion.

### The Fate of the Empress (浮生為卿歌) set highest monthly revenue record for the company

The Fate of the Empress (浮生為卿歌) was launched on 31st December of 2019. After the launching, the game has achieved impressive results in terms of the grossing. The game has set the highest monthly revenue for a single product of the company in 2020. On the other hand, the game's highest record was ranked the 5th place in China's iOS Top Games. It ranked the 20th place in China's iOS Top Games on average in 2020, demonstrating its strong stability. Apart from its strong performance in the China region, the game's performances in overseas regions were also eye-catching. The game was launched in Korea in June 2020, and the highest ranking reached 15th place in South Korea's iOS Top Games. As for now, the Fate of the Empress (浮生為卿歌) has been launched in China, Taiwan, Hong Kong, Macau and overseas regions such as South Korea and Southeast Asia and is expected to be launched in Japan and other regions such as North America in the future.

Since the company has adopted the self-distribution strategy for The Fate of the Empress (浮生為卿歌), hence the company has invested a lot on the game's promotion in 1H20 and it took the game nearly 6 months to breakeven. In 2H20, the game has become profitable and has entered its pay-back period as the promotion expense for the game drops. It is expected the margin for the game in 2021 will be higher than that of 2020. With the frequent game updates and optimizations (up to 20 updates in the Chinese version in 2020), we expect the game can contribute stable grossing and NP for the company in the upcoming years.

26 April 2021

## Buy (Maintain)

CMP HKD 2.63

(Closing price as of 22 April)

TARGET HKD 3.53 (+34%)

### COMPANY DATA

O/S SHARES (MN) :	2,181
MARKET CAP (HKD MN) :	5,736
52 - WK HI/LO (HKD):	4.08/1.75

### SHARE HOLDING PATTERN, %

Eternal Heart Holdings Limited	43.00
Warm Sunshine Holdings Limited	8.70
Ling Long Holdings Limited	8.57
Purple Crystal Holdings Limited	6.63
Lucky Fish Holdings Limited	4.29

### PRICE VS. HIS



Source: Wind, Phillip Securities

### KEY FINANCIALS

CNY mn	FY20	FY21E	FY22E	FY23E
Net Sales	2182	2805	3469	4047
NS per share	1.00	1.29	1.59	1.86
P/S, x	2.2	1.7	1.4	1.2
Net Profit	504	596	793	1094
EPS	0.23	0.27	0.36	0.50
P/E, x	9.7	8.2	6.1	4.5
ROE (%)	32.1	27.6	27.0	27.3
ROA (%)	28.1	24.3	24.2	24.8

Market closing price as of 22<sup>nd</sup> April

Source: Company Data, Phillip Securities Est.

### Research Analyst

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In addition, the company will focus on the Fate (浮生) series and develop the “Five Episodes of the Fate Series”. The second generation product Code: FS2 (代號: FS2) is under development and is expected to be launched in 2022. Further, the company is interested in cooperating with film production companies to bring its ancient Chinese style creations to the silver screen through licensing, in order to further enhance the influence of the relevant IPs.

### The company has a strong pipeline

The company has a strong pipeline. Fate: The Loved Journey (此生無白), a Chinese-style fairy social mobile game will be launched on all platforms in China on 28 April 2021. As of 16<sup>th</sup> April, the game had a TapTap score of 8.8, with over 57k game reservations. Further, the company’s pipeline also included Promise of Lingyun (凌雲諾), a glamorous Chinese-style social mobile game with modern art, and A Story of Lala’s: Rising Star (杜拉拉升職記), an authentic inspirational female-oriented stimulation mobile game. Both of the games are expected to be launched in 2021.

### Valuation

We continue to be optimistic about the potential of the female-oriented game sector and the company’s leading position in the sector. After considered that 1) the grossing of old titles are dropping quicker than we expected 2) the company is expected to launch 3 games in 2021, and the S&M expense tend to be higher at the early stage. We adjust our 2021 NP downward and 2022 NP upward to RMB 596/793 million from RMB 686/766 million and introduce 2023 NP forecast of RMB 1093 million. We lift our 2021 forecast PE to 11x and TP to HKD 3.53, with respective 2021/2022/2023 PE at 11.0x/8.3x/6.0x. We maintain Buy rating. (Market closing price as of 22<sup>nd</sup> April) (exchange rate: RMB 0.85/HKD)

### Risk

1) The tightening on Game regulations 2) The Games underperform comparing to expectation 3) Games launching are delayed due to unexpected reasons 4) Failure in game genre expansion

## Financial Statements

### Consolidated Statement of Profit or Loss

Dec Y/E, RMB mn	FY19	FY20	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>1689</b>	<b>2182</b>	<b>2805</b>	<b>3469</b>	<b>4047</b>
<b>Gross Profit</b>	<b>1102</b>	<b>1468</b>	<b>1823</b>	<b>2290</b>	<b>2671</b>
S&M expense	-393	-612	-847	-1027	-1174
R&D expense	-224	-265	-337	-416	-486
Admin expense	-62	-46	-54	-63	73
Other operating gain/(loss)	24	-2	40	50	63
<b>Operating Profit</b>	<b>447</b>	<b>543</b>	<b>626</b>	<b>833</b>	<b>1148</b>
Finance cost	0	0	0	0	0
Other non-operating gain/(loss)	-8	-16	0	0	0
<b>Profit before tax</b>	<b>438</b>	<b>527</b>	<b>626</b>	<b>833</b>	<b>1148</b>
Tax	-23	-23	-30	-40	-55
NCI	0	0	0	0	1
<b>Profit for the year</b>	<b>416</b>	<b>504</b>	<b>596</b>	<b>793</b>	<b>1094</b>
<b>EPS (RMB)</b>	<b>0.21</b>	<b>0.23</b>	<b>0.27</b>	<b>0.36</b>	<b>0.50</b>
<b>DPS (HKD)</b>	<b>0.10</b>	<b>0.01</b>	<b>0.01</b>	<b>0.01</b>	<b>0.02</b>

### Key Financial Data

Dec Y/E	FY19	FY20	FY21E	FY22E	FY23E
<b>Valuation Ratio</b>					
P/E ratio, x	10.5	9.7	8.2	6.1	4.5
P/S ratio, x	2.6	2.2	1.7	1.4	1.2

### Per share data (RMB)

EPS	0.21	0.23	0.27	0.36	0.50
Revenue per Share	0.87	1.00	1.29	1.59	1.86

### Growth & Margin

Revenue Growth	15.3%	29.2%	28.5%	23.7%	16.7%
Operating income growth	23.0%	21.5%	15.2%	33.1%	37.8%
Net income Growth	23.4%	21.2%	18.3%	33.1%	37.8%
Gross Profit Margin	65.2%	67.3%	65.0%	66.0%	66.0%
Operating profit Margin	26.4%	24.9%	22.3%	24.0%	28.4%
Net Profit Margin	24.6%	23.1%	21.2%	22.9%	27.0%

### Key Ratios

ROE, Adj	31.8%	32.1%	27.6%	27.0%	27.3%
ROA, Adj	27.5%	28.1%	24.3%	24.2%	24.8%

Market closing price as of 22<sup>nd</sup> April

### Consolidated Statement of Financial Position

Dec Y/E, RMB mn	FY19	FY20	FY21E	FY22E	FY23E
<b>Non Current Asset</b>					
PPE	202	264	273	284	296
ROU assets	9	8	9	10	11
Intangible assets	8	4	6	11	18
Others	28	113	113	113	113
<b>Total Non Current Assets</b>	<b>246</b>	<b>388</b>	<b>402</b>	<b>418</b>	<b>438</b>
<b>Current Asset</b>					
T/R	219	181	290	358	418
Inventories	0	0	0	0	0
Cash and cash equivalents	893	1093	1633	2376	3415
Others	153	130	130	130	130
<b>Total Current Assets</b>	<b>1265</b>	<b>1404</b>	<b>2052</b>	<b>2864</b>	<b>3962</b>
<b>Total Assets</b>	<b>1511</b>	<b>1792</b>	<b>2454</b>	<b>3281</b>	<b>4401</b>
<b>Non Current Liabilities</b>					
Long term loan	0	0	0	0	0
Contract liabilities	9	5	6	7	8
Others	0	0	1	2	4
<b>Total Non Current Liabilities</b>	<b>9</b>	<b>5</b>	<b>7</b>	<b>9</b>	<b>12</b>
<b>Current Liabilities</b>					
Short term loan	0	0	0	0	0
T/P	135	143	164	197	229
Contract Liabilities	44	29	72	89	104
Others	16	49	49	49	49
<b>Total Current Liabilities</b>	<b>196</b>	<b>221</b>	<b>285</b>	<b>335</b>	<b>382</b>
<b>Equity</b>					
Share capital	0	0	0	0	0
Reserve	1307	1566	2162	2937	4006
Non controlling interest	0	0	0	0	0
<b>Total Equity</b>	<b>1307</b>	<b>1566</b>	<b>2162</b>	<b>2937</b>	<b>4006</b>
<b>Total Liabilities and Equity</b>	<b>1511</b>	<b>1792</b>	<b>2454</b>	<b>3281</b>	<b>4401</b>

### Cashflow Statement

Dec Y/E, RMB mn	FY19	FY20	FY21E	FY22E	FY23E
<b>Profit (loss) before tax</b>	<b>438</b>	<b>527</b>	<b>626</b>	<b>833</b>	<b>1148</b>
<b>CFO</b>	<b>342</b>	<b>575</b>	<b>589</b>	<b>819</b>	<b>1132</b>
<b>CFI</b>	<b>-236</b>	<b>-128</b>	<b>-50</b>	<b>-58</b>	<b>-69</b>
<b>CFF</b>	<b>319</b>	<b>-222</b>	<b>0</b>	<b>-18</b>	<b>-24</b>
<b>Net Change in Cash</b>	<b>425</b>	<b>225</b>	<b>540</b>	<b>743</b>	<b>1039</b>
Foreign exchange	-4	-25	0	0	0
<b>Cash and CE at Y/E</b>	<b>893</b>	<b>1093</b>	<b>1633</b>	<b>2376</b>	<b>3415</b>

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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 $\pm$ 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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