



**March 5, 2015**  
**Company Report**  
**Rating: BUY**  
**TP: HK\$ 4.0**

H-Share price (HK\$)	2.98
Est. share price return	34.23%
Est. dividend yield	4.69%
Est. total return	38.92%

Previous Rating & TP	NA
Previous Report Date	NA

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**Key Data**

52Wk H/L (HK\$)	10.82/2.6
Issued shares (mn)	1,372
Market cap (HK\$mn)	4,089
3-mth avg daily turnover (HK\$mn)	12.6
Major shareholder(s) (%):	
Duke Online Holdings Limited	13.06

Source(s): Company, Bloomberg, ABCI Securities

**FY13 Revenue breakdown (%)**

Online game revenue, %	94.29%
Licensing revenue, %	0.15%
Joint operation revenue, %	4.42%
Others, %	1.14%
Sum	100.00

Source(s): Company, ABCI Securities

**Share performance (%)**

	Absolute	Relative*
1-mth	8.36	10.33
3-mth	(2.93)	(3.72)
6-mth	(30.37)	(26.23)

\*Relative to HSI  
Source(s): Bloomberg, ABCI Securities

**1-Year stock performance (HK\$)**



Source(s): Bloomberg, ABCI Securities

**IGG Inc (8002 HK)**

**Internationalized mobile games operator with strong potential; initiate BUY**

- Headquartered in Singapore, IGG is a fast-growing global mobile game developer and operator targeting mid/high-end gamers in over 180 countries
- Benefit from strong momentum in the global and China's mobile games markets
- According to the mobile analytics provider, App Annie, IGG's main product is ranked high in popularity. We estimate its FY14E revenue/profits to soar sharply by 136%/812%YoY and would consequently drive up its share price. We believe the Group's FY15 earnings will improve further
- IGG's current valuation is at its historical low; we believe its strong FY14/ FY15 performance and expected listing transfer to the Main Board would trigger revaluation. Initiate coverage with **BUY** with TP of HK\$4.0, representing 8.6x FY15E forward P/E

**IGG is the most internationalized mobile game player by revenue and penetration among peers.**

Headquartered in Singapore, IGG has operating offices in the U.S., Philippines and Taiwan and its R&D base located in Fuzhou. The Group has successfully transformed from PC games operator into one that focuses on mobile games. Its sales team with strong local knowledge has supported its product sales worldwide. Meanwhile, its products are popular in the U.S., E.U., Russia, and Singapore.

**FY14 results will boost FY15 momentum.** 9M14 revenue and net profit increased by 64% and 629% compared to FY13. We believe after the gaming peak season in 4Q14, the Group's FY14 net profit will soar by 812% YoY. According to market analytics, two of its games, Castle Clash and Clash of Lords (II), are among the bestsellers of Google Play in the U.S., E.U. and other markets. We estimate its FY15E revenue/profit to surge 50%/29% YoY.

**Fast-growing mobile games sector will benefit IGG.** With the growing penetration of smartphone, increasing use of mobile payment and improving internet facilities, we believe the number of game subscribers and ARPU would increase in the next 3 years. China will contribute more to the Group's revenue in the next 2 years.

**Attractive valuation; initiate BUY with TP at HK\$ 4.0.** Chances of an upward revision is now increasing given the counter's low valuation, the upcoming FY14 results announcement and strong prospects in FY15. We expect EPS to grow at 36% CAGR in 2014E-17E. Initiate **BUY** with our 12-mth TP at HK\$ 4.0 based on FY15E forward P/E of 8.6x.

**Risk Factors:** 1) Inherent risk in mobile games sector; 2) Increasing competition and product homogenization; 3) Uncertain life cycle of products; 4) Legal risks; 5) Failure to transfer to Main Board may suppress share liquidity.

**Results and Valuation**

FY ended Dec 31	2012A	2013A	2014E	2015E	2016E
Turnover (US\$'000)	43,154	87,986	208,028	311,949	446,087
Chg (%.yoy)	39	104	136	50	43
Net Income (US\$'000)	(13,435)	6,948	63,383	81,991	125,566
Chg (%.YoY)	NA	NA	812	29	53
EPS (US\$)	0.00	0.01	0.05	0.06	0.09
Chg (%.YoY)	NA	NA	551	29	53
BVPS (US\$)	NA	0.10	0.14	0.19	0.26
Chg (%.yoy)	NA	NA	43	32	39
P/E (x)	-	54.12	8.32	6.43	4.20
P/B (x)	-	3.85	2.69	2.03	1.46
DPS, HKD	-	0.016	0.107	0.139	0.248
Yield (%)	NA	0.54	3.59	4.66	8.32
ROE (%)	NA	17.38	38.18	35.99	40.53
ROA (%)	NA	8.03	34.26	32.36	37.31

Source(s): Bloomberg, ABCI Securities estimates



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## Investment highlights

### Catalysts for IGG

1. Compared to other HK-listed gaming peers, IGG has one of the most diversified revenues by geography
2. Great success achieved in transiting from PC games to mobiles games; FY14E/FY15E earnings would increase substantially
3. Strong local knowledge and marketing capacity help increase product penetration
4. Currently, the gaming market in China has not been well developed, presenting strong opportunities for IGG's products in the lucrative market
5. IGG's social app, LINK, has shown positive progress so far and would greatly enhance the company's intrinsic value if proved successful

### Valuation

IGG's 12-mth est. P/E fell to the lowest at 1 S.D. below its historical average. Given its strong business performance, we believe chances of a share price rebound are high

### Rating and TP

Initiate coverage of IGG with **BUY** with 12-mth TP of HK\$ 4.0, representing 8.6x 2015E forward P/E

### Risk factors

1. Uncertainties inherent in the mobile games sector
2. Strong industry growth may attract more participants, driving up competition and resulting in product homogenization
3. Life cycle of its main products and popularity of new products may deviate from expectations
4. Legal risks involved in overseas market operations
5. Liquidity would remain suppressed if listing transfer to the Main Board falls through



## Overview of the mobile games sector

### 1. Global mobile games market is growing for multinational operators

The mobile games sector expanded swiftly in 2013 and 2014, and we are optimistic on its growth prospects in the coming years. As characteristics of each market differ from one another, game operators would need to tailor to the diverse demand accordingly.

#### a) The mobile games market would expand rapidly in the next 3 years

**Mobile games sector shows promises.** According to Newzoo, the market research institute for the games industry, the value of global games market will reach US\$ 102.9bn by 2017E, indicating a CAGR of 8.15% in 2014E-2017E. For the mobile games sector, its value is projected to rise from US\$ 17.6bn in 2014E to US\$ 35.4bn in 2017E, representing a CAGR of 26%, which is 3 times that of the growth in overall games industry. As such, the global mobile game providers would benefit immensely from the strong momentum.

#### b) Uneven development in the global games markets requires differentiated business strategies

**Operation in developed markets requires more sophisticated products and operating experience.** Higher penetration of smartphones in developed countries continues to boost ARPU and promote innovative gameplay. Higher demand and requirement of players in the developed markets necessitate support from strong and experienced overseas operation and R&D teams.

**In emerging markets, the demographic dividend, rising pay rates and pay levels for games form the triple driving forces.** Rising smartphone penetration and urbanization in Southeast Asia render it one of the fastest growing gaming business regions. Indonesia, Malaysia, Thailand, Vietnam, and the Philippines are important growth markets.

**Game developers and operators need to be familiar with the local culture.** Development of the Southeast Asian markets provides good opportunities for games operators familiar with the oriental culture.

Operators familiar with both the developed markets and developing markets are more likely to capture opportunities arising from the fast-growing mobile games sector.

### 2. China's mobile games market presents huge potentials

**Three catalysts for the mobile games sector in China.** Growing number of mobile game users, fee-based clients and higher ARPU growth will propel the sector's development in China. Thanks to the rapidly expanding 4G/LTE network, broadband coverage, and high smartphone penetration, popularity of mobile gaming is soaring.

**Smartphone replacement since 4Q14.** As prices of large-screen 4G handsets decline on increased supplies, the product becomes more widely used in the country, enabling further penetration of mobile internet applications. Also, smartphone replacement and upgrade would allow games with higher ARPU value to be easily transferred from PC to mobile devices.

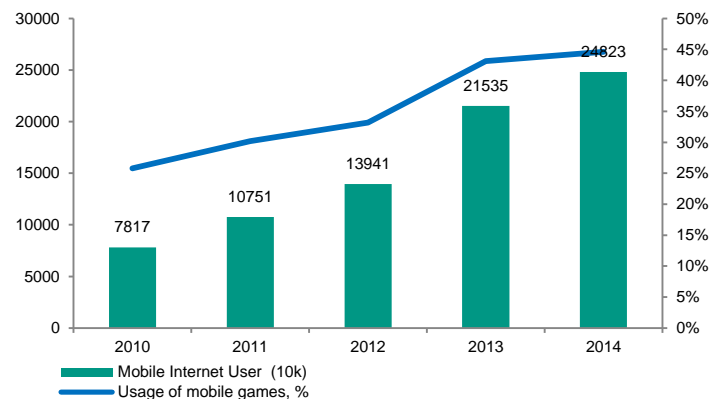
**Mobile games market continues to grow.** Though we expect revenue growth of mobile game operators to gradually moderate in the next 2 years, new games, media, accessories and technologies would continue to drive up ARPU and accelerate monetization.

**Internet infrastructure will be greatly enhanced in 2015, forming a solid foundation for the mobile games sector.** China's telecom operators accelerated their 4G base station construction in 2014 and coordinated with smartphone suppliers to allow 4G users to enjoy cheaper mobile services with favorable 4G plans. Meanwhile, internet giants such as Tencent (0700 HK), Alibaba (BABA US), and Baidu (BIDU US) are promoting the nationwide free WiFi network. All these will propel the development of mobile games in China.

**Distribution and payment channel fees are likely to trend down.** Various distribution/download and payment channels for mobile games are available in China. Currently, Tencent is the dominant distribution/download platform. The huge MAU and stickiness of Tencent's clients largely reduce the threat posed by price competition. The availability of other distribution channels, however, helps to lower the distribution costs for certain successful game operators. We believe competition among distributors and payment service providers to increase in 2015. The growing number of third-party payment firms and fierce competition among distributors will enhance the bargaining power of mobile games operators. Also, the cost of payment channels is expected to further decline in 2015, boosting the net income of mobile games companies.

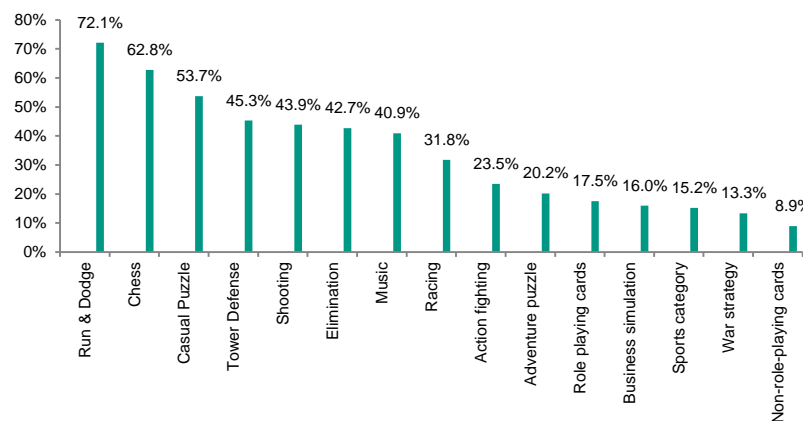
**New technologies to enable PC-to-mobile transition.** Many mobile games companies are redesigning their games to attract PC gamers to transfer to the mobile devices. Although it would take longer for such products to develop, the success could drive up profits substantially.

#### Exhibit 1: China's mobile network users and usage of mobile games



Source(s): CNNIC, ABCI Securities

#### Exhibit 2: Mobile game preferences in China by genre



Source(s): CNNIC, ABCI Securities

## IGG's Business Analysis

### 1. Global operators with self-operated and joint operation products

IGG's mobile games include the self-operated and joint-operation ones. Self-operated games refer to games developed in-house or licensed from third parties that are solely operated by the Group. Revenue recognized from these products approximate to the payment by game players.

Joint-operated games refer to games jointly operated with third-party operators (such as Tencent). IGG is responsible of providing technical support, game update and other services; the Group can access the joint operators' platform to monitor sales activities. Revenue is recognized on a net basis, namely, the portion IGG are entitled to according to the revenue-sharing agreement. In 3Q14, self-operated and joint-operation games accounted for 91% and 7% of IGG's revenue.

In our view, the two operation models can help IGG extend its product development capability and increase its winning odds.

### 2. Enjoy strong global operating capabilities

As at Oct 31, 2014, the Group had ~200mn user accounts and 20mn MAU from over 180 countries and regions. To enhance user experience, IGG hire native-speaking staff in different markets.

As at end-Sep 2014, IGG operated over 40 games. According to the mobile analytics provider App Annie, IGG's main product, Castle Clash (CC), was ranked among the top 10 of Google Play's bestselling strategy game in the U.S., Canada, Australia, Britain, Switzerland, Sweden, and other countries early in 2015. Its newly launched game, Clash of Lords (I&II, COL), also achieves a stable download ranking as well.

For the 6 months ended Oct 31, 2014, COL2 has 17mn registered users with 3mn MAU; the revenues surpassed US\$ 10mn. Overlap between COL2 and CC players is minimal, and this effectively diversifies the company's revenue sources to reduce dependence on CC. In 4Q14, the Group continued to launch new mobile games in different genres including tower defense, strategy, shooting, and pinball games.

**Strong local sales team and selling channels.** Design and marketing of mobile games entail strong cultural characteristics and require operators to possess extensive knowledge of the specific markets. Impressive sales of CC, which was available in 15 languages in over 180 countries, is partly enabled by the Group's emphasis on developing sales team with a strong local knowledge.

#### Exhibit 3: Global distribution IGG's revenue (as of 9M14)

Country	Income share
USA	31%
Germany	8%
Russia	8%
Mainland China	6%
France	5%
United Kingdom	5%
Canada	3%
Australia	3%
Taiwan	2%
Singapore	2%

Source(s): Company, ABCI Securities



**Exhibit 4: No. of users and MAU of IGG's main products (as of 9M2014)**

Product Name	Product Category	Registered users (as of Oct 2014)	MAU (as of Oct 2014)
Castle Clash	Arcade & Action	73mn	9.20 mn
Clash of Lords II	Strategy	17mn	3.00 mn
Clash of Gangs	3D combat strategy	1.28mn	
Gods Rush	card-based strategy	1.24mn	
Brave Trials	RPG	1.29mn	

Source(s): Company, ABCI Securities

**Exhibit 5: CC's ranking in App Annie's hot markets (Google Play platform)**

Major Countries	Jan 31, 2015	Mar 1, 2015	Change
Australia	5	6	Down 1
Canada	4	5	Down 1
France	15	15	Flat
Germany	16	18	Down 2
Italy	12	12	Flat
Japan	80	74	Up 6
Netherlands	5	4	Up 1
Russia	28	35	Down 7
Singapore	6	6	Flat
Korea	42	46	Down 4
Spain	15	14	Up 1
Sweden	6	5	Up 1
Switzerland	6	6	Flat
United Kingdom	6	8	Down 2
USA	5	5	Flat

NOTE: The ranking is based on data in Jan 31, 2015 ~ Mar 1, 2015,  
Source(s): App Annie

**3. LINK may significantly increase IGG's intrinsic value**

Another important product, LINK, is a social platform for game users. Currently, LINK serves mainly the mobile gamers; the Group is taking steps to expand its user base and transform the product into a multinational messaging platform through large-scale promotion. The long-term goal of IGG is to accumulate over 100,000,000 users for the social platform. By then, LINK would be able to generate revenue from multiple sources such as sales from mobile games and advertising.

**Exhibit 6: LINK's basic information**

On-line time	Aug 2014
Registered users	2.65 mn (as of end- Oct 2014)
MAU	1mn(as of the end-Oct2014)
Advertising cost investment	\$ 2,300,000 (Aug 2014-Sep 2014)

Source(s): Company, ABCI Securities



**Exhibit 7: Ranking of LINK at Google Play**

Popular Countries	Jan 31, 2015	Mar 1, 2015
Australia	58	64
<b>Canada</b>	<b>60</b>	<b>55</b>
<b>China</b>	<b>94</b>	<b>54</b>
France	140	153
Germany	101	109
Italy	118	185
Japan	152	160
Netherlands	60	78
<b>Russia</b>	<b>195</b>	<b>38</b>
Singapore	14	38
Korea	311	465
Spain	117	195
Sweden	53	81
Switzerland	86	114
<b>United Kingdom</b>	<b>70</b>	<b>67</b>
<b>USA</b>	<b>80</b>	<b>81</b>
Philippines	15	26

Source(s): App Annie, ABCI Securities

**4. Strong implementation capability**

Being aware of the lucrative potential of mobile games industry, IGG has steered its focus from PC games to mobile games since early 2013. The transformation was proved successful and within a year, mobile game accounted for 51% of FY13 revenue and subsequently rose to 87% in 3Q14. The Group's 9M14 revenue/profit increased by 63.64%/628.57% compared to FY13. As 4Q14 is the peak season of gaming, we expect IGG's FY14 net profit growth to surpass that of 9M14.

Based on our observations, unlike IGG, some Hong Kong-listed games operators have been unable to carry out the PC-to-mobile transition as efficiently. IGG's success partly lies on its strong implementation capability as well as its market diversification strategy. The latter has greatly reduced impacts of the cut-throat competition in China's games market.





## Peer Comparison

Exhibit 8: Peer comparison of HK-listed games operators (as of Mar 4, 2015)

Code	Company	Price	Mkt Cap HK\$ mn	P/E FY14E	P/E FY15E	EPS* FY14E	EPS* FY15E
<b>8002HK</b>	<b>IGG –ABCI Est.</b>	2.92	4,005	9.80	7.60	0.05	0.06
8002.HK	IGG-Bloomberg	2.92	4,005	7.24	5.98	0.05	0.06
0434.HK	Boyaa	5.41	4,114	10.67	8.13	0.41	0.54
0484.HK	Forgame	13.20	1,682	N/A	14.37	-0.01	0.74
0700.HK	Tencent	133.30	1,249,450	41.96	31.49	2.57	3.42
1022.HK	Feiyu	1.95	2,925	14.34	10.17	0.11	0.16
2100.HK	Baioo	0.65	1,826	5.91	7.10	0.09	0.07
3888.HK	Kingsoft	17.10	20,262	23.13	19.18	0.60	0.72
6899.HK	Ourgame	3.64	2,850	13.38	9.11	0.22	0.32
0777.HK	Netdragon	13.08	6,453	17.99	16.45	0.59	0.64

\* Currency in USD for IGG, and RMB for all others

Source(s): Bloomberg, WIND, ABCI Securities Forecast

Exhibit 9: Operating indicators of HK-listed gaming operators in Hong Kong (as of 9M14)

Code	Company	Main Revenue Attribution	Mobile Games Wgt 3Q14 (%)	Main market	Main product	1H14 Revenue*	1H14 GPM	1H14 Net Profit*
8002.HK	IGG	MobileGame	91.26	Global	Castle Clash\Clash of Lords	91.90	72.46	32.94
0434.HK	Boyaa	PC-Game	58.87	China	Texas Holdem Poker\Landlords	457.95	61.98	137.83
0484.HK	Forgame	PC-Game	NA	China	Soul Guardian	337.45	74.24	-21.77
0700.HK	Tencent	Gaming platform	13%	China	League of Legend	38146	59.70	12293
1022.HK	Feiyu	PC-Game	1H14: 24.4	China	Soul Guardian \ Soul Guardian	129.23	86.94	51.42
2100.HK	Baioo	PC-Game	NA	China	Legend of Aoqi	287.77	72.42	-208.26
3888.HK	Kingsoft	App. Tool+	NA	China	JX Online 3	1426.13	84.37	364.36
6899.HK	Ourgame	PC-Game	26.5%	China	Texas Holdem Poker	207.29	62.80	33.21
0777.HK	Netdragon	PC-games +online education	NA	China	Conquer Online\Eudemons Online and etc.	447.24	90.39	143.49
1980.HK	Tiange	Real-time social video platform	NA	China	Real-time social video platform	344.25	84.30	-174.35

\* Currency in USD mn for IGG, and RMB mn for all others

Source(s): Bloomberg, WIND, ABCI Securities calculation

## Valuation and Recommendation

Share prices of Hong Kong's mobile games operators saw significant correction in 2014. Considering the emerging positives in 2015, we believe a sector revaluation would occur. As the leading stock of the sector, share price of IGG is likely to rebound in 2015.

Based on Bloomberg's 12-mth forecast P/E, IGG's present valuation (~5.8x) is 1 S.D. lower than its historical average (~10x), indicating a high likelihood of an upward revision.

However, investors should also note that, IGG was listed on Oct 18, 2013, and Bloomberg has been providing the forecast P/E since Nov 29, 2013. Hence, the time frame of the series is relatively short. Also, the newly-listed firms often suffer from the IPO puzzle, which means that its share price may underperform for a period of time before the trend can be reversed. In short, we believe IGG's valuation might not justly reflect the company's true value at present. Therefore, we have included the company's fundamentals and potential catalysts of the industry in our valuation.

We estimate that the Group's EPS would grow at 36% CAGR in 2014E-17E on growing client base and rising ARPU. Due to the high base in 2014E and the promotional expense of LINK, we expect its net profit growth would moderate to ~29% YoY in 2015E, resulting in an EPS of US\$ 0.06

Based on our FY15E forward P/E at 8.6x, we set our 12-month TP at HK\$ 4.0, representing an upside of 34.23%. Given IGG's high growth in revenue/net profit, we believe our valuation leans on the conservative side. IGG's strong fundamentals in a promising sector prompt us to initiate coverage on the Group with a **BUY** rating.

Excluding in our valuation above is the company's potential listing transfer to the Main Board which, if succeed, may drive its valuation to 10x forward 2015E P/E or higher, pushing its share price to HK\$ 4.65, provided that the sectorial valuation also normalizes gradually over time.

### Exhibit 10: 12-mth best est. P/E trend (Nov 29, 2014- Mar 3, 2015)



Sources: Bloomberg, ABCI Securities



## Financial projections

Revenue and cost control are the two major focuses in our financial projections for IGG. To fully leverage its global market advantages and capitalize on the sector's high growth, IGG may incur high expenditures in R&D, frequent launch of new product, and expansion of marketing and distribution channels. In addition, the promotional cost of LINK will be substantial and may reduce the Group's gross profit margin in the short term; nonetheless, we believe the cost ratio will normalize in the longer term if product sales are strong. The major assumptions of our financial projections are listed in Exhibit 11.

**Exhibit 11: Main hypotheses of the IGG financial model**

Main assumptions	2013A	2014E	2015E	2016E
Growth of registered accounts,%	NA	81.0	30.0	30.0
MAU/Total registered accounts,%	10.9	11.5	11.5	11.5
PayAcc/MAU,%	1.10	1.10	1.10	1.10
Monthly ARPU Growth,%	NA	10	15	10
Online game Rev/Total Rev, %	94	94	94	94
Gross profit margin, %	75	72	73.3	72.7
Sales & Distribution Exp /Rev., %	26	21	23	20
Adm.Exp./Rev, %	12.3	9.0	9.0	9.0
R&D/Rev.,%	10.6	9.0	9.0	9.0
Effective tax rate,%	16	8	10	15

Sources: ABCI Securities Estimate



Consolidated Income Statements Forecast (2012A-2016E)

FY ended Dec 31 (US\$'000)	2012A	2013A	2014E	2015E	2016E
<b>Revenue</b>	43,154	87,986	208,028	311,949	446,087
Online game revenue	41,810	85,251	196,142	293,232	419,321
Licensing revenue	548	234	321	481	446
Joint operation revenue	796	2,501	9,200	15,597	24,089
Other revenue	0	0	2,365	2,639	2,230
Cost of sales	(10,358)	(22,264)	(58,248)	(83,141)	(121,898)
<b>Gross profit</b>	<b>32,796</b>	<b>65,722</b>	<b>149,780</b>	<b>228,808</b>	<b>324,189</b>
Other income and gains	422	592	592	592	592
Selling and distribution expenses	(12,071)	(23,246)	(42,646)	(71,748)	(89,217)
Administrative expenses	(7,093)	(10,855)	(18,722)	(28,075)	(40,148)
Research and development costs	(6,331)	(9,333)	(18,722)	(28,075)	(40,148)
Other expenses	(20,669)	(14,619)	(1,040)	(1,581)	(2,246)
<b>PROFIT/(LOSS) BEFORE TAX</b>	<b>(12,946)</b>	<b>8,261</b>	<b>69,241</b>	<b>99,920</b>	<b>153,022</b>
<b>Income tax expense</b>	<b>(163)</b>	<b>(1,313)</b>	<b>(5,539)</b>	<b>(16,986)</b>	<b>(26,014)</b>
Profit/(loss) from continuing operations	(13,109)	6,948	63,702	82,934	127,009
Loss for the year from a discontinued operation	(326)	0	0	0	0
<b>PROFIT/(LOSS) FOR THE YEAR</b>	<b>(13,435)</b>	<b>6,948</b>	<b>63,702</b>	<b>82,934</b>	<b>127,009</b>
<b>Attributable to: Owners of the parent</b>	<b>(13,435)</b>	<b>6,948</b>	<b>63,383</b>	<b>81,991</b>	<b>125,566</b>
<b>EPS (Basic), US\$</b>	-0.0251	0.0078	0.0462	0.0598	0.0915
<b>EPS(Diluted), US\$</b>		0.0071	0.0462	0.0597	0.0915
<b>Dividend per share, HKD</b>	0.000	0.016	0.107	0.139	0.248

Sources: Company, ABCI Securities Estimate

Balance Sheet Forecast(2012A-2016E)

FY ended Dec 31 (US\$'000)	2012A	2013A	2014E	2015E	2016E
Property, plant and equipment	1,517	1,674	3,442	3,511	3,581
Other intangible assets	152	97	410	410	410
Non-current rental deposits	152	157	1,141	649	895
Deferred tax assets	365	435	60,476	73,760	70,421
<b>Total non-current assets</b>	<b>2,186</b>	<b>2,363</b>	<b>65,469</b>	<b>78,330</b>	<b>75,307</b>
Accounts receivable	496	314	1,567	1,731	2,918
Amount due from related party	0	114	135	303	361
Prepayments, deposits and other receivables	476	919	2,234	3,304	4,757
Funds receivable	3,233	12,248	15,602	23,396	33,456
Cash and cash equivalents	15,135	135,488	133,588	181,113	268,178
Other current assets	0	0	0	0	0
<b>Current assets</b>	<b>19,340</b>	<b>149,083</b>	<b>153,125</b>	<b>209,847</b>	<b>309,670</b>
<b>Total assets</b>	<b>21,526</b>	<b>151,446</b>	<b>218,595</b>	<b>288,177</b>	<b>384,978</b>
Accounts payable	1,841	3,228	2,535	2,881	2,708
Other payables and accruals	3,124	3,006	3,600	8,028	9,600
Deferred revenue	5,556	7,805	6,681	7,243	6,962
Other current liabilities	66,596	1,317	659	988	823
<b>Total current liabilities</b>	<b>77,117</b>	<b>15,356</b>	<b>13,474</b>	<b>19,140</b>	<b>20,092</b>
Deferred tax liabilities	250	317	284	300	350
Other non-current liabilities	0	0	0	0	0
<b>Total non-current liabilities</b>	<b>250</b>	<b>317</b>	<b>284</b>	<b>300</b>	<b>350</b>
<b>Total Liabilities</b>	<b>77,367</b>	<b>15,673</b>	<b>13,757</b>	<b>19,440</b>	<b>20,442</b>
<b>EQUITY</b>	<b>-55,841</b>	<b>135,773</b>	<b>204,838</b>	<b>268,737</b>	<b>364,535</b>
<b>Non-controlling interests</b>	<b>0</b>	<b>0</b>	<b>8,560</b>	<b>9,395</b>	<b>4,224</b>
<b>Equity of the firm</b>	<b>-55,841</b>	<b>135,773</b>	<b>196,277</b>	<b>259,343</b>	<b>360,311</b>
<b>Book value/share, US\$</b>	<b>-</b>	<b>0.10</b>	<b>0.14</b>	<b>0.19</b>	<b>0.26</b>

Sources: Company, ABCI Securities Estimate



Consolidated Cash Flow Statements Forecast(2012A-2016E)

FY ended Dec 31 (US\$'000)	2012A	2013A	2014E	2015E	2016E
From continuing operations	(12,946)	8,261	69,241	99,920	153,022
From a discontinued operation	(326)	—	—	—	—
Interest income	(24)	(160)	(92)	(126)	(109)
Loss/(gain) on disposal of PP&E	(6)	10	2	6	4
Fair value loss of redeemable convertible preferred shares	20,612	14,167	0	0	0
Depreciation	1,014	754	1,550	1,581	1,613
Amortisation of other intangible assets	264	105	0	0	0
(Gain)Loss on sale of subsidiaries & associated co.	0	0	0	0	0
(Gain)Loss on disposal of a discontinued operation	405	—	0	0	0
Equity-settled share compensation costs	126	1,030	578	578	578
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>9,119</b>	<b>24,167</b>	<b>71,279</b>	<b>101,959</b>	<b>155,108</b>
Increase in funds receivable	(883)	(9,015)	(3,354)	(7,794)	(10,060)
Decrease/(increase) in accounts receivable	(561)	68	(1,253)	(165)	(1,186)
Increase in prepayments, deposits & receivables	(392)	(443)	(1,315)	(1,070)	(1,453)
Increase in accounts payable	1,650	1,387	(694)	347	(173)
Increase in deferred revenue	265	2,249	(1,125)	562	(281)
Increase/(decrease) in other payables and accruals	689	(118)	594	4,428	1,572
Increase in non-current rental deposits	(152)	—	—	—	—
<b>Cash flows generated from operations</b>	<b>9,735</b>	<b>18,295</b>	<b>64,134</b>	<b>98,267</b>	<b>143,526</b>
Interest received	24	160	92	126	109
Income tax paid	(11)	3	(4)	(1)	(2)
<b>Net cash flows from operating activities</b>	<b>9,748</b>	<b>18,458</b>	<b>64,222</b>	<b>98,393</b>	<b>143,632</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchases of items of property, plant and equipment	(658)	(940)	(63,394)	(32,167)	(32,167)
Purchases of other intangible assets	(112)	(46)	(79)	(63)	(71)
Other investment activities	(93)	(9,967)	(30)	2	(14)
<b>Net cash flows used in investing activities</b>	<b>(863)</b>	<b>(10,953)</b>	<b>(63,503)</b>	<b>(32,228)</b>	<b>(32,252)</b>
Proceeds from exercise of share options	42	302	302	302	302
<b>Dividends declared and paid</b>	<b>0</b>	<b>(4,923)</b>	<b>(2,897)</b>	<b>(18,926)</b>	<b>(24,597)</b>
Other items from financing activities	0	107,477	0	0	0
<b>Net cash flows from financing activities</b>	<b>42</b>	<b>102,856</b>	<b>(2,595)</b>	<b>(18,624)</b>	<b>(24,295)</b>
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,927	110,361	(1,876)	47,541	87,085
Cash and cash equivalents at beginning of year	6,248	15,135	135,488	133,588	181,113
Effect of foreign exchange rate changes, net	(40)	(8)	(24)	(16)	(20)
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>15,135</b>	<b>125,488</b>	<b>133,588</b>	<b>181,113</b>	<b>268,178</b>

Sources: Company, ABCI Securities Estimate

Financial Ratios (%) (2012A-2016E)

FY ended Dec 31	2012A	2013A	2014E	2015E	2016E
Gross profit margin	76.00	74.70	72.00	73.35	72.67
EBT margin	NA	9.39	33.28	32.03	34.30
Net profit margin	NA	7.90	30.47	26.28	28.15
ROAA	NA	8.03	34.26	32.36	37.31
ROAE	NA	17.38	38.18	35.99	40.53

Sources: Company, ABCI Securities Estimate



## Risk Factors

Our estimates may deviate from the actual results due to the following risk factors.

### **1. Uncertainties inherent in the mobile games sector**

New technologies may necessitate new gaming medium (non-smartphone ones). Competitiveness of game operators relies heavily on its ability to adapt to changes. For IGG, whose mobile game CC accounted for 63% of revenue in 9M14, may suffer if such changes occur.

### **2. Fierce peer competition may lead to price war or product homogenization**

With more players entering the mobile game industry, peer competition will stiffen and product homogenization may occur. Worsening industry competition, which leads to the introduction of a large number of new products, may negatively affect user experience if the product quality is left unchecked.

### **3. Life cycle of main products and popularity of new products may be different from expectations**

As mobile games sector is relatively new, it is difficult for us to gauge the typical life cycle of each mobile game, which in turn may affect the accuracy of our estimates. In addition, an earlier-than-expected breakthrough of LINK may also render our forecasts too pessimistic.

### **4. Legal risks involved in overseas markets**

IGG's products are sold in numerous regions; violations of relevant product regulations may result in penalties and litigations.

### **5 Failure to transit to Main Board may continue to suppress stock liquidity**

Although management indicates intention to transfer IGG's listing to the Main Board, the company has not filed an official application with HKEx as of the date of the report's publication. Its liquidity would remain suppressed if the listing transfer falls through.



## Company Profile

**Business:** Founded in 2006, IGG is a fast-growing global online game developer and operator providing web games, client games and mobile games to the global players in multiple languages. The Group mainly targets at high-end players whose daily game time is usually less than an hour. In addition to its business in foreign countries, the company employs most of its developers in China, which allows the Group to operate in a cost-effective manner.

**Corporate Headquarter:** Singapore (also has regional offices in the U.S., China, and the Philippines)

**R&D headquarters:** China

**Main product:** Castle Clash, Texas Holdem Poker, etc.

### Overview of IGG's management:

**Mr. Zongjian Cai**, was appointed as executive Director on 31 October 2007 and is chief executive officer. Mr. Cai is one of the Founders and is primarily responsible for the corporate strategic planning and overall business development of IGG. Mr. Cai has approximately 14 years of experience in online game industry. He worked at Fujian NetDragon Computer Information Network Technology Co., Ltd.\* as a vice president from May 2000 to Nov 2003 by whom 17173.com was developed. Mr. Cai also worked as the chief executive officer of 17173.com, which is acquired by Sohu.com Inc., a company listed on NASDAQ

**Mr. Yuan Chi**, was appointed as IGG's executive Director on 16 Aug 2007 and is IGG's senior vice president. Mr. Chi is one of the Founders and he is primarily responsible for the game development of IGG. Mr. Chi has approximately 16 years of experience in information technology industry. He was the vice president of Fujian Rongji Software Co., Ltd., a company listed on Shenzhen Stock Exchange (Stock Code: 002474), from Nov 2000 to Sep 2003.

**Mr. Yuan Xu**, is chief operating officer. Mr. Xu has approximately 14 years of experience in project and corporate management. He joined IGG in Sep 2007 and is primarily responsible for business operation and development of IGG outside the PRC. Prior to joining IGG, Mr. Xu worked as a graduate researcher at University of California, Santa Cruz, from Sep 1999 to July 2004.

**Mr. Hong Zhang**, is chief technology officer and senior vice president of global operations. Mr. Zhang has approximately 17 years of experience in information technology industry. He joined IGG in Dec2008 and is primarily responsible for the overall technology operation of IGG.

**Mr. Zhixiang Chen**, is senior vice president and a director of IGG Singapore. Mr. Chen has approximately 10 years of experience in online game industry. He is primarily responsible for the business operation and development of IGG in the PRC. Mr. Chen joined IGG in Dec 2005 and participated in founding IGG and IGG.com platform from December 2005 to June 2006. He was chief operation officer from Dec 2007 to June 2009. He was the president of IGG Singapore from Aug 2009 to Aug 2012, responsible for expanding overseas (South East Asia) business.



## Chronicle of events of IGG

- In Feb 2006, IGG founded by Mr. Zongjian Cai and Mr. Yuan Chi.
- In June 2006, IGG published its first licensed MMORPG-MythWar Online.
- Throughout 2007, IGG published more MMO games including popular Tales of Pirates and Angels Online.
- In Dec 2007, IGG completed Series A founding led by the IDG Group.
- In Mar 2008, IGG published Wonderland Online.
- In Nov 2008, IGG released its first in-house develop NNORPG, Godswar.
- In Nov 2008, IGG completed Series B founding led by the IDG Group, Vertex and Hearst despite the global recession.
- In Mar 2009, IGG launched the first in-house developed Real Time Strategy game, Galaxy Online.
- In June 2009, IGG opened its headquarters in Singapore.
- Throughout 2010, IGG made expansion into facebook gaming with a series of social games including Fish Isle, Crazy Clinic, Miracle Garden, Crazy Pirates, Lords Online, and Texas HoldEm Poker Deluxe.
- In Jan 2011, IGG released Galaxy Online II, with multiple versions worldwide, including French, German, Spanish, Turkish and several other languages.
- In Oct 2011, Texas HoldEm Poker Deluxe, IGG's widely popular and top rated poker app, became available on ios.
- Throughout 2011, IGG also released multiple high-end 3D browser games including 100 Years' War and Age of Titans.
- In January 2012, the Android version of Texas HoldEm Poker Deluxe was released in Google Play.
- Throughout 2012, IGG released new browser games including Heroes Social, Wings of Destiny and Dawn of Darkness.
- In February 2013, IGG released Dawn of Darkness Android version on Google Play.
- Mar 2013, IGG released FreeSky Online 2 on Facebook in Taiwan.
- Mar 2013, IGG released KaChing Slots Android version on Google Play.
- Apr 2013, IGG released Heroes Social on Facebooks Philippines and Heroes & Monsters Android version on Google Play.
- May 2013, IGG released Slot Machines by IGG Android version on Google Play.
- July 2013, IGG released Clash of Lords Android version on Google Play.
- In July 2013, IGG released Castle Clash Android version on Google Play.
- Oct. 18,2013, IGG went public on HKEx Gem Board, stock code: 8002.HK
- Nov.2013, Castle Clash was launched on IOS platform
- Dec.2013, Clash of Lords II was launched on Android platform
- As of the end of 2013, the number of the Group's registered users surpassed 100mn
- Jan.2014, the Group established a wholly-owned subsidiary in Canada focusing on R&D
- Feb.2014, the monthly revenue of Castle Clash surpassed USD 10million
- April,2014, the monthly revenue of the Clash of Lords series surpassed USD 1mn
- May,2014, the simple Chinese version Castle Clash was formally launched on all the mobile social platforms of Tencent
- As of the end of June,2014, the revenue from mobile gaming segment has accounted for more than 80% of the Groups' total revenue
- Aug.2014, Link, a self-developed location-based instant messenger App, was publicly launched
- As of the end of Oct.2014, the number of the Group's registered users surpassed 200mn



## Disclosures

### Analyst Certification

I, Chen Yibiao, Mark, being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company (ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

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### Definition of equity rating

Rating	Definition
Buy	Stock return $\geq$ Market return rate
Hold	Market return $- 6\% \leq$ Stock return $<$ Market return rate
Sell	Stock return $<$ Market return $- 6\%$

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2010-2014

Time horizon of share price target: 12-month

### Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 1.5
Low	180 day volatility/180 day benchmark index volatility $<$ 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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