



January 10, 2014
Equity Focus
Rating: Unrated
TP: NA

Share price (HK\$) 9.90
Est. share price return NA
Est. dividend yield NA
Est. total return NA

Previous Rating & TP NA
Previous Report Date NA

Analyst: Mark Chen
Tel: (852) 2147 8819
Email: markchen@abci.com.hk

Key Data

52Wk H/L (HK\$)	10.92/2.92
Issued shares (mn)	1,359
Market cap (HK\$ mn)	12,624
3-mth avg daily turnover (HK\$ mn)	111.2
Major shareholder (%):	
Cai Zongjian	34.1
IDG-Accel China Growth Fund	19.6
Temasek Holdings (Private) Limited	8.77

Source(s): Company, Bloomberg, ABCI Securities

9M13 Breakdown of revenue (%)

Online game revenue, %	95.8
Licensing revenue, %	0.4
Joint operation revenue, %	3.8

Source(s): Company, ABCI Securities

Share performance (%)

	Absolute	Relative*
1-mth	148.12	152.15
3-mth	NA	NA
6-mth	NA	NA

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg

IGG (8002 HK)

Revenue in China is to expand

- IGG has agreed to distribute its best-selling mobile game, Castle Clash (CC), on Tencent (700 HK)'s platform, which we believe will expand its revenue in China that contributed only 5% to its total revenue in 9M13
- China's broadband policy and the issuance of 4G license will accelerate development in the mobile gaming sector, creating a positive industry environment for independent game developer including IGG.
- Alibaba's competition with Tencent helps reduce the channel cost for mobile game developers

We held a meeting with IGG management after they had announced cooperation with Tencent (700 HK).

Cooperation with Tencent will expand mobile game revenue in China. IGG will market and distribute its best-selling game CC on Tencent's platform. Management believes the cooperation with Tencent would greatly enhance its exposure to China's market that only contributed to 5% of IGG's 9M13 revenue.

More products in the pipeline. IGG will launch CC in versions of three and eight other languages for the Android and iOS systems. Also, six new mobile games targeting at different age groups will be launched in 1Q14.

Strategically cooperate with Dynam. IGG will cooperate with Dynam (6889 HK) to develop the next-generation Pachinko Machine for Macau and online gaming. The project is expected to generate profit in 2015. While the fee-sharing mechanism has yet to be determined, both IGG and Dynam are inclined to adopt a revenue-sharing scheme rather than a royalty-paying one.

M&A opportunity. IGG favors two kinds of M&A targets: 1) Promising domestic game developers in China with strong earnings potentials. IGG can help expand the game revenue further with its global sales channels; 2) Platforms of gaming communities overseas that will enlarge IGG's global customer reach.

Our comments:

1. The era of mobile game has just begun. Tencent strong gaming platform will prove invaluable. We believe the fast-growth in mobile gaming industry will be the fundamental catalyst for IGG's growth. We estimate the Group's business will turn profitable for FY13E with its net profit to be US\$ 21mn. The cooperation with Tencent will increase its FY14E net profit to US\$ 80mn (base case)-180mn (best case) based on our scenario analysis that excluded revenue of the project with Dynam. Besides, China's broadband initiatives, 3G/4G/Wi-Fi development and urbanization strategy will accelerate developments in the mobile gaming market and benefit IGG.

Results and Valuation

FY ended Dec 31	2011A	2012A	9M13
Revenue (US\$'000)	31,080	43,154	51,294
Chg (% YoY)	N/A	39	68
Net Profit (US\$'000)	(8,690)	(13,435)	(2,650)
Chg (% YoY)	N/A	55	(70)
EPS (US\$)	(0.0165)	(0.0251)	(0.0034)
Chg (% YoY)	N/A	52	NA
BVPS (US\$'000)	N/A	N/A	N/A
Chg (% YoY)	N/A	N/A	N/A
P/E (x)	N/A	N/A	N/A
P/B (x)	N/A	N/A	N/A
DPS (US\$)	N/A	N/A	N/A
Yield (%)	N/A	N/A	N/A
ROE (%)	N/A	N/A	N/A
ROA (%)	N/A	N/A	N/A

Source(s): Bloomberg, ABCI Securities

2. Alibaba's competition with Tencent will help reduce the channel cost for mobile game developers. Ali launched another game platform in China with a revenue-sharing scheme as low as 30% (Tencent requires to share 50%~70% of revenue according to the media in China). This is a positive factor for independent game developers including IGG, as increased competition among the platform hosts will increase the bargaining power of game developers.
3. IGG's multi-platform and global exposure enable more independence and help diversify its business risks (such as overreliance on a single market/distribution platform). Data generated from global gamers on preferences and other useful data shared with Tencent will allow IGG to develop a powerful knowledge base crucial for success in the mobile gaming industry.
4. Although IGG's project with Dynam would not be profitable in the short term, we consider the venture would help the Group diversify its business. Besides, Dynam's sharing of its industrial data with IGG will improve quality of the latter's mobile gaming products.

Risk factors: 1) Lower-than-expected development pace in the mobile gaming sector; 2) Product deficits result in low MAU; 3) Legal risks arising from operation in different countries and regions; 4) Listing in GEM Board



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.

Disclosures of Interests

ABC Securities Company Limited and/or its affiliates may pursue financial interests to the companies mentioned in the report.

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 2007-2011

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.

Disclaimers

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, groups or affiliates of ABCI Securities Company Limited. The compensation of the analyst who prepared this report is



determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of ABCI Securities Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

ABCI Securities Company Limited and/or its affiliates may pursue financial interests to the companies mentioned in the report.

ABCI Securities Company Limited and/or its affiliates, within the past 12 months, have investment banking relationship with one or more of the companies mentioned in the report.

Copyright 2014 ABCI Securities Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

**Office address: ABCI Securities Company Limited, 13/F Fairmont House,
8 Cotton Tree Drive, Central, Hong Kong.**

Tel: (852) 2868 2183