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

NA

NΑ

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Previous Rating &TP

Previous Report Date

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	
TemasekHoldings (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	

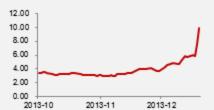
Share performance (%)

	<u>Absolute</u>	<u>Relative*</u>
1-mth	148.12	152.15
3-mth	NA	NA
6-mth	NA	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 c 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 (%, Yo Y)	N/A	55	(70)
EPS (US\$)	(0.0165)	(0.0251)	(0.0034)
Chg (%, YoY)	NA	52	NA
BVPS (US\$'000)	N/A	N/A	N/A
Chg (%, Yo Y)	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

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Definition of equity rating

Rating	Definition
Buy	Stock return ≥ Market return rate
Hold	Market return – 6% ≤ 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 ≤180 day volatility/180 day benchmark index volatility
High	1.5 ≤ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	1.0 ≤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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