



May 07, 2015
Company Report
Rating: BUY
TP: HK\$ 7.1

H-Share price (HK\$) 6.10
Est. share price return 16.39%
Est. dividend yield 3.70%
Est. total return 20.1%

Previous Rating & TP BUY, HK\$4.6
Previous Report Date March 11, 2015

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

Key Data

52Wk H/L (HK\$)	9.16/2.6
Issued shares (mn)	1,392
Market cap (HK\$mn)	8,491
3-mth avg daily turnover (HK\$mn)	119.2
Major shareholder(s) (%): Duke Online Holdings Limited	13.04

Source(s): Company, Bloomberg, ABCI Securities

FY14 Revenue breakdown (%)

Online game revenue, %	94.75
Joint operation revenue, %	3.95
Others, %	1.30
Sum	100.00

Source(s): Company, ABCI Securities

Share performance (%)

	Absolute	Relative*
1-mth	8.54	(0.82)
3-mth	121.82	109.82
6-mth	56.81	39.44

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

IGG Inc (8002 HK)

Key takeaways from management meeting

- Revenue contribution from mobile games increased to 93% in 1Q15 compared with 90% in 4Q14, the highest among its HK-listed peers; CC's topline share continues to reduce and we believe the diminishing reliance on the product is positive
- Excluding the tax effect from EU market, net profit in 1Q15 is higher than that in 4Q14
- IGG will launch 3 new products in June and publish about 30 games in 2015
- Management emphasized the Group's strength in cross-culture mobile game design, multinational distributions and R&D capability would enable them to capture growing demand
- The Group's listing transfer to the Main Board is likely to occur in mid-June. Increased liquidity will support a higher valuation, esp. in light of recent bull market sentiment. Reiterate BUY with TP of HK\$ 7.1, representing 15x FY15E forward P/E

Key takeaways from IGG's latest non-deal roadshow:

Better-than-expected 1Q15 results. Revenue from mobile games reached 93% in 1Q15, up from 90% in 4Q14. As of latest, the Group has 240mn accounts (4Q14: 210mn) in more than 200 countries with over 20mn of MAUs. Reporting 1Q15 net profit was USD13.9mn, up 2.2%YoY but down 9.2%QoQ because of seasonality, a negative tax change in EU, and depreciation of the RUB. Omitting the tax effect, the Group's net profit would have been US\$ 16.2mn, up 6% QoQ.

Dependence on flagship game reduces. Total revenue in 1Q15 grew 21.5% YoY; contribution from the 6 highest-earning games accounted for 89% of revenue in 1Q15 (86% in 4Q14; 91% in FY14). Revenue share of its flagship game, Castle Clash (CC), was 57% of total in 1Q15 (58% in 4Q14). The Group will publish ~30 new games this year, with no less than 3 new products to be launched in June.

Further globalization. The Group has successfully formed a global R&D team and marketed its products worldwide. Management believes IGG's strength lies on its cross-culture mobile game design, multinational distribution and strong R&D capabilities. Their next emphasis will be on enhancing its global channels. The Group announced a proposed acquisition of an international online game publisher on May 6, 2015. We believe this strategy, if successful, will strengthen revenue in the long run.

Possible listing transfer to Main Board in mid-June. If succeeded, the increased liquidity, bull market sentiment, and the peak season in 2Q will support a higher valuation. Maintain BUY and raise TP to HK\$ 7.1 based on FY15E forward P/E of 15x. However, investors need to be cautious against the short-term price volatility and the acquisition terms in detail.

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	2014A	2015E	2016E
Turnover (US\$'000)	43,154	87,986	204,612	315,164	439,352
Chg (%.yoy)	39	104	133	54	39
Net Income (US\$'000)	(13,435)	6,948	66,373	82,950	122,264
Chg (%.YoY)	NA	NA	855	25	47
EPS (US\$)	0.00	0.01	0.04	0.06	0.09
Chg (%.YoY)	NA	NA	510	40	47
BVPS (US\$)	NA	0.10	0.14	0.17	0.25
Chg (%.yoy)	NA	NA	36	28	40
P/E (x)	-	-	18.17	13.01	8.84
P/B (x)	-	-	5.77	4.51	3.21
DPS, HKD	-	-	0.226	0.141	0.241
Yield (%)	NA	-	3.70	2.30	3.96
ROE (%)	NA	17.38	41.15	38.90	42.39
ROA (%)	NA	8.03	35.97	33.29	35.79

Source(s): Bloomberg, ABCI Securities estimates

Exhibit 1: 1Q15 Revenue Breakdown by game title

FY14		1Q15	
Game title	% of total revenue	Game title	% of total revenue
Castle Clash	62	Castle Clash	57
Clash of Lord (I & II)	12	Clash of Lord (I & II)	18
Texas Poker Deluxe	5	Deck Heroes	5
Galaxy Online II	5	Texas Poker Deluxe	4
Wings of Destiny	4	Brave Trials (licensed)	3
Slot Machine	3	Slot Machine	2
Total	91		89

Sources: The Company, ABCI Securities

Exhibit 2: 1Q15 Financial Highlights

	1Q14	1Q15	Chg	4Q14	1Q15	Chg
Revenue (USD mn)	44.1	53.6	21.5	60.5	53.6	-11.4
Gross Profit (USD mn)	32.2	36.9	14.6	42.3	36.9	-12.8
Gross Profit Margin (%)	73	69	-4ppt	70	69	-1ppt
Adjusted net income* (USD mn)	13.8	14.8	7.2	15.9	14.8	-6.9
Adjusted net income margin (%)	31	28	-3ppt	26	28	+2ppt
Profit attributed to owners of parent (%)	13.6	13.9	2.2	15.3	13.9	-9.2
Profit margin for the period (%)	31	26	-5ppt	25	26	+1ppt
Weighted avg. no. of ordinary shares (mn shares)	1359	1369	--	1364	1369	
Basic EPS (US cent)	1.00	1.02	--	1.12	1.02	

*Adjusted net income represented profit excluding share-based compensation

Sources: The Company, ABCI Securities



Consolidated Income Statements (2012A-2016E)

FY ended Dec 31 (US\$'000)	2012A	2013A	2014A	2015E	2016E
Revenue	43,154	87,986	204,612	315,164	439,352
Online game revenue	41,810	85,251	193,859	302,558	412,991
Licensing revenue	548	234	-	-	-
Joint operation revenue	796	2,501	8,088	12,291	23,725
Other revenue	0	0	2,665	315	2,636
Cost of sales	(10,358)	(22,264)	(58,827)	(91,398)	(131,806)
Gross profit	32,796	65,722	145,785	223,766	307,546
Other income and gains	422	592	4,110	4,110	4,110
Selling and distribution expenses	(12,071)	(23,246)	(43,064)	(72,488)	(87,870)
Administrative expenses	(7,093)	(10,855)	(16,672)	(26,789)	(36,572)
Research and development costs	(6,331)	(9,333)	(17,202)	(26,789)	(37,141)
Other expenses	(20,669)	(14,619)	(1,342)	(1,843)	(2,725)
PROFIT/(LOSS) BEFORE TAX	(12,946)	8,261	71,615	99,968	147,348
Income tax expense	(163)	(1,313)	(5,223)	(16,995)	(25,049)
Profit/(loss) from continuing operations	(13,109)	6,948	66,392	82,973	122,299
Loss for the year from a discontinued operation	(326)	0	0	0	0
PROFIT/(LOSS) FOR THE YEAR	(13,435)	6,948	66,392	82,973	122,299
Attributable to: Owners of the parent	(13,435)	6,948	66,373	82,950	122,264
EPS (Basic), US\$	(0.0251)	0.0078	0.049	0.061	0.089
EPS(Diluted), US\$		0.0071	0.043	0.061	0.089
Dividend per share, HKD	0.000	0.016	0.226	0.141	0.242

Sources: Company, ABCI Securities estimates

Balance Sheet (2012A-2016E)

FY ended Dec 31 (US\$'000)	2012A	2013A	2014A	2015E	2016E
Property, plant and equipment	1,517	1,674	2,896	2,954	3,013
Other intangible assets	152	97	905	905	905
Non-current rental deposits	152	157	0	79	39
Deferred tax assets	365	435	9,939	68,166	64,692
Total non-current assets	2,186	2,363	13,740	72,103	68,649
Accounts receivable	496	314	2,375	2,391	4,217
Amount due from related party	0	114	0	204	142
Prepayments, deposits and other receivables	476	919	3,482	4,328	6,755
Funds receivable	3,233	12,248	16,889	23,637	32,951
Cash and cash equivalents	15,135	135,488	127,088	178,115	289,795
Other current assets	0	0	54,000	0	0
Current assets	19,340	149,083	203,834	208,675	333,861
Total assets	21,526	151,446	217,574	280,779	402,510
Accounts payable	1,841	3,228	7,572	5,400	6,486
Other payables and accruals	3,124	3,006	4,476	8,831	10,961
Deferred revenue	5,556	7,805	12,970	10,388	11,679
Other current liabilities	66,596	1,317	4,820	3,069	3,944
Total current liabilities	77,117	15,356	29,838	27,687	33,070
Deferred tax liabilities	250	317	457	387	350
Other non-current liabilities	0	0	0	0	0
Total non-current liabilities	250	317	457	387	350
Total Liabilities	77,367	15,673	30,295	28,074	33,420
EQUITY	(55,841)	135,773	187,279	252,705	369,090
Non-controlling interests	0	0	499	12,975	31,982
Equity of the firm	(55,841)	135,773	186,780	239,730	337,108
Book value/share, US\$	-	0.10	0.136	0.175	0.246

Sources: Company, ABCI Securities estimates



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

FY ended Dec 31 (US\$'000)	2012A	2013A	2014A	2015E	2016E
From continuing operations	(12,946)	8,261	71,615	99,968	147,348
From a discontinued operation	(326)	—	—	—	—
Interest income	(24)	(160)	(557)	(359)	(458)
Loss/(gain) on disposal of PP&E	(6)	10	3	7	5
Fair value loss of redeemable convertible preferred shares	20,612	14,167	—	0	0
Depreciation	1,014	754	1,025	1,046	1,066
Amortisation of other intangible assets	264	105	389	389	389
(Gain)Loss on sale of subsidiaries & associated co.	0	0	—	0	0
(Gain)Loss on disposal of a discontinued operation	405	—	—	0	0
Equity-settled share compensation costs	126	1,030	0	0	0
CASH FLOWS FROM OPERATING ACTIVITIES	9,119	24,167	71,545	101,050	148,350
	0	0	0	0	0
Increase in funds receivable	(883)	(9,015)	(4,641)	(6,748)	(9,314)
Decrease/(increase) in accounts receivable	(561)	68	(2,061)	(16)	(1,825)
Increase in prepayments, deposits & receivables	(392)	(443)	(2,563)	(846)	(2,427)
Increase in accounts payable	1,650	1,387	4,344	(2,172)	1,086
Increase in deferred revenue	265	2,249	5,165	(2,583)	1,291
Increase/(decrease) in other payables and accruals	689	(118)	1,470	4,355	2,130
Increase in non-current rental deposits	(152)	—	0	—	—
Cash flows generated from operations	9,735	18,295	71,526	93,040	139,291
Interest received	24	160	557	359	458
Income tax paid	(11)	3	(1,260)	(629)	(944)
Net cash flows from operating activities	9,748	18,458	70,823	92,770	138,804
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of items of property, plant and equipment	(658)	(940)	(2,327)	(1,634)	(1,634)
Purchases of other intangible assets	(112)	(46)	(1,472)	(759)	(1,116)
Other investment activities	(93)	(9,967)	(49,349)	48	55
Net cash flows used in investing activities	(863)	(10,953)	(53,148)	(2,345)	(2,694)
Proceeds from exercise of share options	42	302	499	401	450
Dividends declared and paid	0	(4,923)	(4,300)	(39,800)	(24,885)
Other items from financing activities	0	107,477	(12,284)	0	0
Net cash flows from financing activities	42	102,856	(16,085)	(39,400)	(24,435)
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,927	110,361	1,590	51,026	111,675
Cash and cash equivalents at beginning of year	6,248	15,135	125,488	127,088	178,115
Effect of foreign exchange rate changes, net	(40)	(8)	10	1	6
CASH AND CASH EQUIVALENTS AT END OF YEAR	15,135	125,488	127,088	178,115	289,795

Sources: Company, ABCI Securities estimates

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

FY ended Dec 31	2012A	2013A	2014A	2015E	2016E
Gross profit margin	76.00	74.70	71.25	71.00	70.00
EBT margin	NA	9.39	35.00	31.72	33.54
Net profit margin	NA	7.90	32.44	26.32	27.83
ROAA	NA	8.03	35.97	33.29	35.79
ROAE	NA	17.38	41.15	38.90	42.39

Sources: Company, ABCI Securities estimates

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

ABCI 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 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.

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.

Copyright 2015 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**