

Newborn Town (9911 HK)

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Initial Coverage

BUY

Close price: HK\$1.95

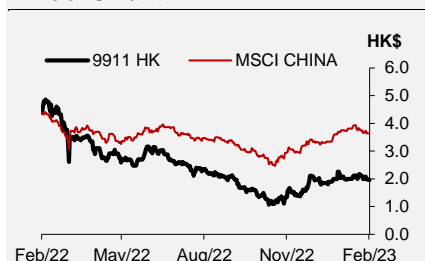
Target Price: HK\$3.33 (+70.8%)

Key Data

HKEx code	9911 HK
12 Months High (HK\$)	4.95
12 Month Low (HK\$)	1.05
3M Avg Dail Vol. (mn)	6.48
Issue Share (mn)	1,191.22
Market Cap (HK\$mn)	2,322.87
Fiscal Year	12/2021
Major shareholder (s)	Mr. Liu Chunhe(28.70%)

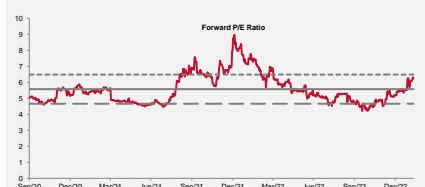
Sources: Company data, Bloomberg, OP Research
Closing price are as of 02/13/2023

Price Chart



	1mth	3mth	6mth
Absolute %	-6.3	+20.4	-11.8
Rel. MSCI CHINA %	-3.2	+4.1	-17.9

PE



Company Profile

Newborn Town is principally engaged in providing social networking businesses with app-based social platforms like Mico, YoHo and Yumy. Also, it operates innovative businesses such as mobile games.

More social apps expecting to begin bearing fruit

- Yumy is expecting to break-even next year. Positive feedback for emerging social apps such as Sugo and TopTop.
- Newborn Town could release the value of Blued(The app is not yet officially consolidated into the company).
- Leisure mobile games as the new growth drivers.

More social networking apps beginning to bear fruit. Newborn Town adopted the "Traffic + Social networking" strategy to develop social apps worldwide. The company has a mature livestreaming platform, Mico, which has MAU of 5-6mn and generates RMB>1bn of revenue. Other than that, it is working to release the value of the growing social app platforms, namely YoHo and Yumy, which they have more monthly active users (4mn and 10mn respectively) than Mico. The continuous success in launching and monetising different well-received social networking apps will boost the value of its social networking businesses. Also, Newborn Town gets positive feedback when it explores business opportunities in different social networking scenarios, such as social game users and one-to-one video chat. According to Sensor Tower's data for Jan 2023, monthly revenue of emerging social apps, Sugo and TopTop, from App Store and Google Play, were US\$400,000 and US\$280,000, respectively.

Newborn Town could release the value of Blued. Blued's loss-making overseas business could be turned profitable by leveraging Newborn Town's successful experience in operating a number of social apps across overseas markets. This LGBTQ-focused social app, which has a MAU of >7mn and a strong community unity, is not yet officially consolidated into the company.

Leisure mobile games as the new growth driver. Newborn Town launched 2 merging games ("Animal Adventure" and "Alice's Adventure") in 2022Q2. The two games are well-received in North America and developed markets. Total downloads exceed millions. The monthly revenue from in-app purchases for the two games was at least US\$720,000 in Jan 2023 according to Sensor Tower.

New games and social app platforms as the new earnings engine. We expect a high likelihood for Yumy and the recently launched mobile games to break even in FY23E and they will significantly boost the net profit of Newborn Town. In addition, the company has healthy cash flow, no debt, and plenty of cash and financial assets (RMB 900mn as in Jun 2022) for M&A.

Initiate BUY with target price of HK\$3.33. We reach our TP based on the SOTP analysis. Of which, we assign HK\$2.51 for the social networking business. The TP represents 21.6x/12.3x/8.0x PE Ratio in FY22E/23E/24E. We project a prosperous earnings outlook when its new apps become profitable. Without considering Blued, we expect the company's adjusted profit to reach RMB161mn/RMB288mn/RMB445mn in FY22E/23E/24E, on the back of 19.1% revenue CAGR in FY22-24E.

Exhibit 1: Forecast and Valuation

Year to Dec (RMB mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	1,182	2,360	2,795	3,390	3,990
Growth (%)	+203.2	+99.7	+18.4	+21.3	+17.7
Adjusted profit #	110	150	161	288	445
Growth (%)	+60.5	+36.6	+7.4	+78.9	+54.4
Diluted EPS (HK\$)	0.14	0.17	0.15	0.27	0.42
EPS growth (%)	+64.7	+22.2	-6.9	+75.8	+54.4
Change to previous EPS (%)			-	-	-
Consensus EPS (HK\$)			-	-	-
ROE (%)	5.6	-35.2	11.2	18.7	22.5
P/E (x)	14.4	11.8	12.7	7.2	4.7
P/B (x)	3.0	3.7	4.6	3.1	2.1
Yield (%)	0.0	0.0	0.0	0.0	0.0
DPS (HK\$)	0.00	0.00	0.00	0.00	0.00

Sources: Bloomberg, OP Research



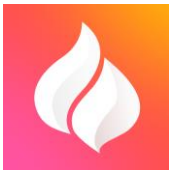

Adjusted profit in FY20-FY21 were estimated figures.

Diversified social networking matrix

Newborn Town has created a social networking product matrix that includes livestream (Mico), audio chatroom (YoHo), and video-based matching (Yumy).

The company has participated in the privatization of BlueCity (it operates a LGBTQ+ orientated social app named Blued). However, it is not yet officially consolidated into the company.

Exhibit 2: Basic info for Newborn Town's social network matrix

	Mico	YoHo	Yumy	Blued (Not yet consolidate into the company)
				
Features	Livestreaming	Audio Chatrooms	Video-based Matching	LGBTQ+ Community
Year of launch	2015	2018	2020	2016
Google play download (Source : Sensor Tower)	50M+	10M+	10M+	10M+
Monthly active users	5-6mn	4mn	10mn	7mn
Number of country covered	iOS 94	95	N/A	78
	Android 94	96	98	76
Rating – Social – Revenue (1 Feb 2023) (sources: data.ai)	42	66	N/A	70
Monthly revenue(Jan 23) from App-store and Google Play (Source : Sensor Tower ¹)	~USD1.5mn	~USD0.9mn	USD100,000 (Android only)	~USD0.85mn
Top countries/ Region (Source: Sensor Tower)	App-stores: US, Vietnam, Thailand	App-stores: Saudi Arabia, Vietnam, US	Google play: India, Pakistan, Egypt	App-stores: China, Taiwan, HK, Vietnam, Thailand, Philippines
	Google play: India, Indonesia, Pakistan	Google play: India, Pakistan, Thailand		Google play: China, India, Brazil, Philippines
Equity stake	60.39%	60.39%	100%	(Pending to disclose)

Source: The company, Sensor Tower, data ai, open sources, OP research

¹ In addition to App Store and Google Play, Newborn Town offers more payment methods for in-app purchases. The majority of its revenue comes from payment methods other than App Store and Google Play. The company explained that it was due to the relatively immature financial infrastructure in developing countries, which means the user cannot proceed with an in-app purchase through App Store or Google Play.

Exhibit 3: Country ranking for Newborn Town's social networking matrix

Tier(Social, Revenue) At 1 Feb 2023	Mico		YoHo		Yumy ²	Blued	
	iPhone	Android	iPhone	Android	Android	iPhone	Android
Country rating #1	0	0	0	0	0	0	0
Country rating #2-5	6	1	4	2	0	2	0
Country rating #6-10	6	5	3	7	1	2	5
Country rating #11-100	48	66	19	45	76	20	30

Source: Sensor Tower

Prosperous outlook for the video and audio social entertainment market.

According to iResearch, the global video and audio social entertainment market is expected to grow steadily (14.4% yoy CAGR in 21A-27E) after the market has experienced robust growth in the past 5 years.

Looking forward, the growth potential of social live streaming users in the Far East and MENA, which is the main focus for Newborn Town, is significantly higher than that of North America and Europe. These markets are less developed and have more monetization potential.

Localization of social products as the key to gain more footholds in various countries. For example, Newborn Town launched a group voice chat room app named YoHo in 2018. This apps-based social platform fits with the Muslims custom and it is well-received in many MENA countries. According to Sensor Tower, YoHo is one of the top 10 social apps in App Store and Google Play in MENA countries such as Bahrain, Kuwait, Saudi Arabia, the UAE, Qatar, and Iraq.

Exhibit 4: Growth outlook for the global video and audio social entertainment market

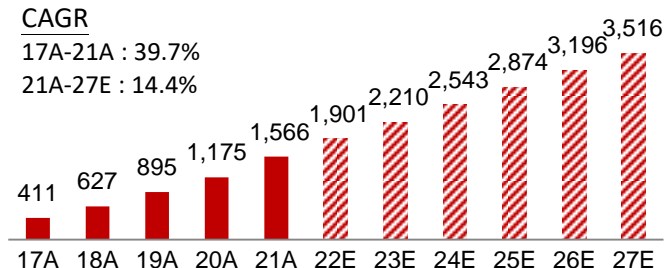
Global Video and Audio Social Entertainment Market, 2017-2027E(Revenue unit : bn RMB)

(unit: bn RMB)

CAGR

17A-21A : 39.7%

21A-27E : 14.4%



Global Video and Audio Social Entertainment Market by geography, 2017-2027E (Revenue unit : bn RMB)

■ North America ■ Far East(excl. China) ■ Europe ■ MENA

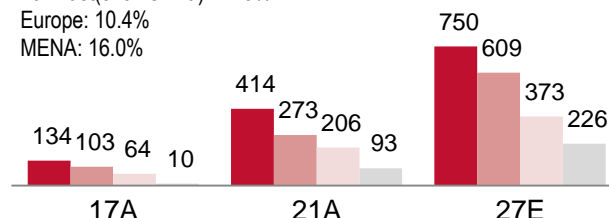
CAGR in 21-27E

North America :10.4%

Far East(excl. China) :14.3%

Europe: 10.4%

MENA: 16.0%

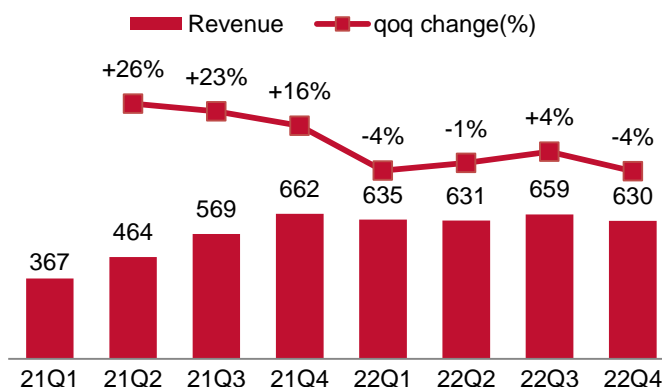


Sources: iResearch, OP Research

² Newborn Town does not release Yumy in App Store.

Unlocking the growth potential of new social platforms. Newborn Town's social networking business has reported a relatively flat growth trend since 2023. This is believed to be due to the slowdown in the revenue growth of Mico. However, we believe that the flattish growth trend in the social networking industry will end soon as it begins to develop profitable business models to monetize the large customer base of its new apps (Yumy).

Exhibit 5: Performance of social networking businesses from 21Q1 to 22Q4



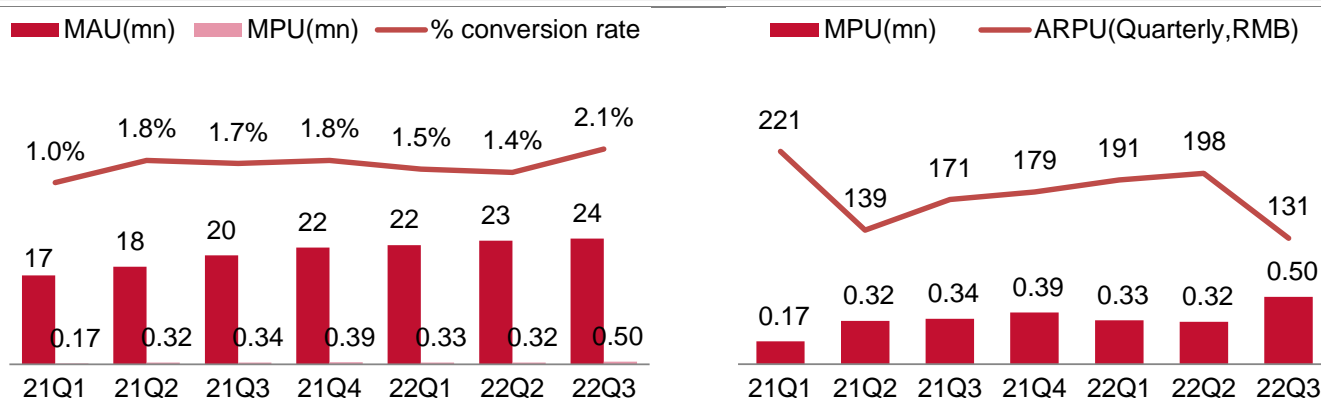
Sources: The company, OP research

We understand the significant growth in monthly paid users and conversion rate in 22Q3 (+56% qoq) was mainly driven by the increased MPU in Yumy under promotion campaigns.

YoHo has replicated its success from the Middle East to Southeast Asia. We understand the app's total revenue rose 70% yoy in FY22H1 and revenue from non-MENA countries has grown to 40%.

Yumy focuses on accumulating customer bases in mature markets like North America and the Middle East. For 1H22, the cumulative download exceeded 50mn. The company started to monetize the app platform, and it reported gross profit in 1H22. The app is expected to break even in the first half of 2023.

Exhibit 6: Social networking business performance from 21Q1 to 22Q3





Sources: Company, OP research

More new social apps platforms are beginning to bear fruit. Newborn Town is incubating new app-based social networking platforms such as Sugo and TopTop which seemingly have the potential for monetization. These apps have distinctive features and cater to different customer needs.

Sugo's revenue from Google Play was found to be higher than Yumy's in Jan 2023, according to Sensor Tower data. These apps cover fewer markets (20-30 countries) than Mico, YoHo and Yumy (90+) at the moment. These apps have plenty of room to grow their customer bases when they enter more markets.

We understand the overall revenue for Sugo/TopTop is still lower than Yumy at the gross level.

Exhibit 7: Newborn Town's new social networking apps showed monetization potential

Apps	Sugo	TopTop
		
Features	Random live chat	Voice chat app with some social games
Google play download	5M+	10M+
Year of launch	2021	2019
Number of iOS country covered	29	19
	Android 31	28
Monthly Revenue (Jan 2023) (Source : Sensor Tower)	iOS: USD200k	iOS: USD80k
	Android : USD200k	Android : USD200k
Top Countries/Region	iOS: Saudi Arabia, Egypt, US Android: India, Egypt, Indonesia	iOS: Saudi Arabia, Egypt, Oman Android: Saudi Arabia, Egypt, Algeria

Sources: Sensor Tower, OP research

Exhibit 8: Country ranking for Newborn Town's emerging social networking apps

Tier(Social, Revenue) At 1 Feb 2023	Sugo		TopTop	
	iPhone	Android	iPhone	Android
Country rating #1	0	0	1	0
Country rating #2-5	1	0	0	2
Country rating #6-10	3	4	1	5
Country rating #11-100	10	15	6	13

Sources: Sensor Tower, OP research

Newborn Town has a track record of making a number of its social networking apps successful. The replication of the proven social apps business model will support continuous growth and improve the value of social networking businesses.

Newborn Town has the key to unlock growth opportunity of Blued

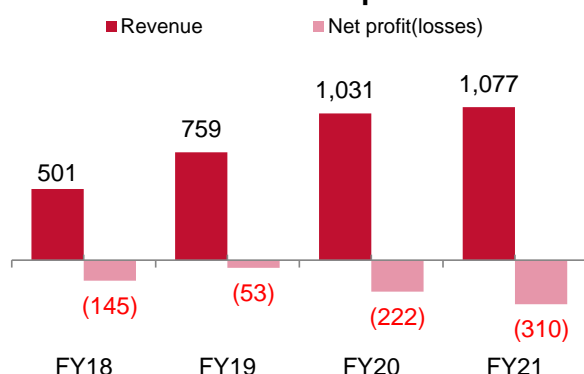
Newborn Town has participated in the privatization of Bluecity, which operated a LGBTQ-based social network named Blued. Until now, it is not yet officially consolidated into the company.

Blued has established a solid LGBTQ online community in China, and it has successfully monetized its large customer base. However, it failed to replicate its success in overseas markets. We understand the poor overseas business is the main cause of the consecutive losses over the years.

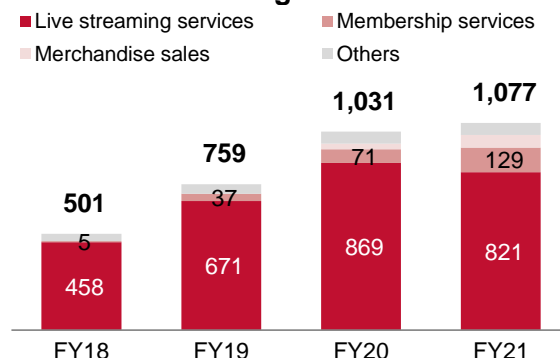
Blued's overseas users reached 3mn in FY21, which accounted for ~40% of the total MAU. However, overseas business only accounted for 11.6% of total revenue during the same period. BlueCity (the parent company of Blued) admitted it is in the early stages of generating revenue from users outside China in its FY21 annual report.

Exhibit 9: Blued's financial performance

Blued reported consecutive losses despite revenue maintain an upward trend



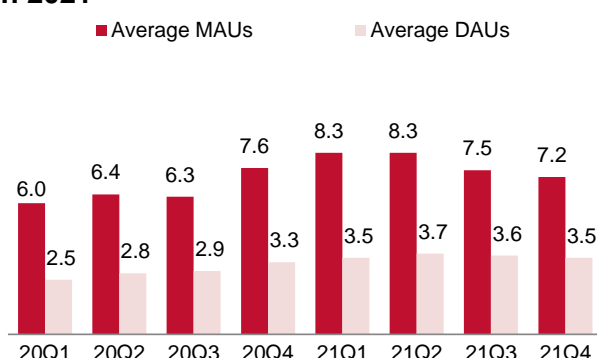
Blued generates most of its revenue from live streaming services



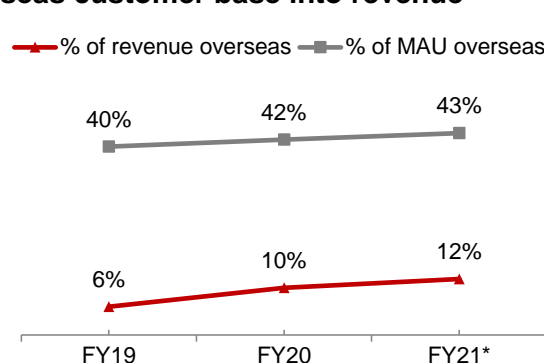
Sources: BlueCity, OP Research

Exhibit 10: Blued's operating performance

Blued has a very stable daily average user count in 2021



Blued has failed to convert the enormous overseas customer base into revenue



Sources: BlueCity, OP Research

Newborn Town has a track record of promoting, operating, and monetizing its social networking apps across the globe, leveraging localized management to better fit the user profile and optimize the features of the apps. **We believe Newborn Town could turn Blued's overseas businesses into profits.** It will also expand its LGBTQ online community across overseas markets.

Diversification with niche mobile games.

In addition to the focus on social networking apps, the company has deployed some niche games to form the foundation of its second growth curve.

The two games reported in-game monthly revenue of USD 720,000 in App Store and Google Play in Jan 2023, according to Sensor Tower. This does not count the revenue from in-game advertising.

Newborn Town's 2 new synthesis games showed strong growth in terms of total downloads and revenue, thanks to the company's efforts to enrich gameplay and optimize the experience, and the large-scale promotion. They are well received in developed countries. Once they are among the top 30 puzzle games on Google Play in more than 30 countries and regions, including Canada, the United Kingdom, Portugal, and Australia.

Mergeland – Alice's Adventure is expected to be released in App Store in the short term. This will act as a revenue booster for the innovative businesses in 2023. Looking forward, we expect the company to launch more niche games to fuel growth.

Exhibit 11: Newborn Town launched 2 synthesis games, namely Mergeland-Animal Adventure and Mergeland-Alice's Adventure, in 2022 Q2

Mergeland-Animal Adventure



Mergeland-Alice's Adventure



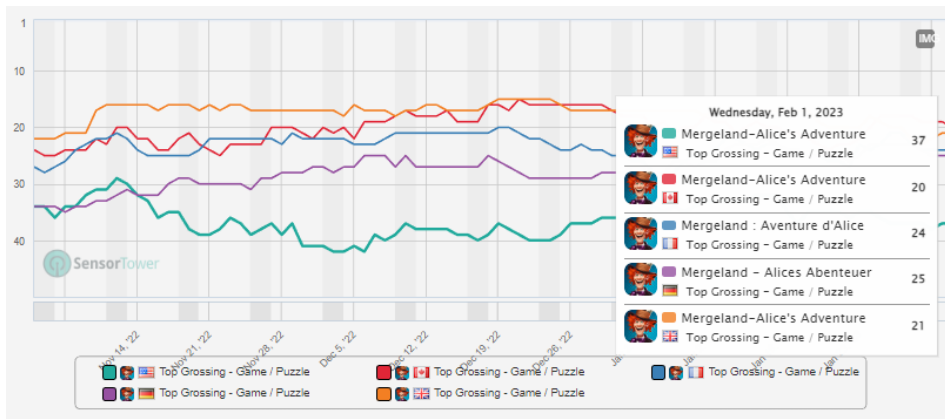
Sources: The company

Exhibit 12: Country ranking for Mergeland-Animal Adventure and Mergeland - Alice's Adventure

Tier(revenue) At 1 Feb 2022	Mergeland-Animal Adventure			Mergeland - Alice's Adventure		
	iPhone (Games / Casual)	iPad (Games / Casual)	Android (Game/Puzzle)	iPhone (Games / Casual)	iPad (Games / Casual)	Android (Game/Puzzle)
Country rating #1	0	0	0	N/A	N/A	0
Country rating #2-5	0	0	0	N/A	N/A	0
Country rating #6-10	0	0	0	N/A	N/A	3
Country rating #11-100	0	9	22	N/A	N/A	91

Sources: Sensor Tower, OP Research

Exhibit 13: Mergeland – Alice's Adventure were well-received by Android's player in the developed countries in term of gross revenue in the Game/Puzzle category



Sources: Sensor Tower,

Earnings forecast

Segmental business preview

Social networking business: New platform as the major earnings driver

We don't include Blued in our earnings forecast, since the business is not yet consolidate into the Group. We expect Blued to generate annual revenue of >RMB1bn with mid-single-digit growth. It is confident that the business will break even in FY23E through optimization of operating expenses

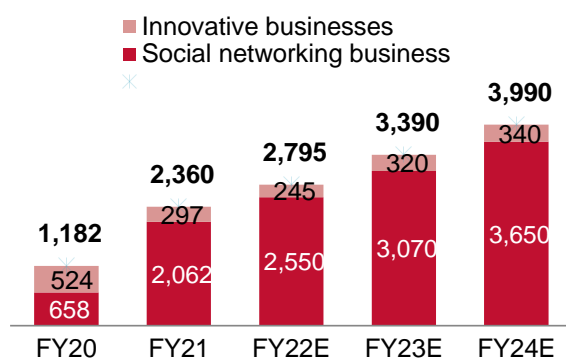
In the next few years, the earnings catalyst for the social networking business will be YoHo and Yumy. Meanwhile, we expect moderate growth for Mico. We project the company's revenue CAGR for its existing social networking business to be 21.0% in FY22-24E. We project Newborn Town to report strong earnings growth for FY23.

Innovative business: awaiting more niche games

The well-received synthesis games launched in 2022Q2 showed the potential of niche games as new revenue drivers for Newborn Town. We project a 30% yoy revenue growth in FY23E. The two niche games released in mid-2022 will continue to generate stable revenue to the company this year. We await the company's plans to stir up the growth of the innovation businesses.

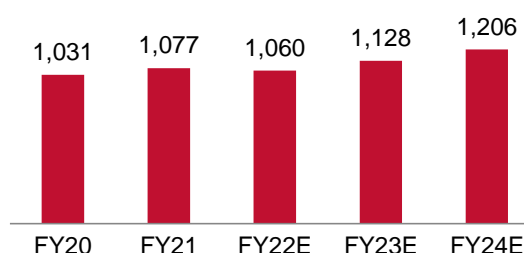
Exhibit 14: Forecast on Newborn Town's segmental revenue

Segmental revenue(Unit: RMBmn)



Our forecast on Blued(Unit: RMBmn)

(Not yet consolidate into the company)



Sources: Company, OP research

GPM: gradually recovering in the future

We understand the jump in revenue sharing with live-streamers was partly due to the cost relating to Mico's decision to stop cooperating with some live-streamers and paid a one-off cut off fee.

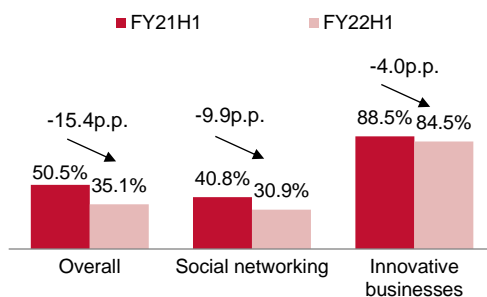
Newborn Town reported a rather weak gross profit margin in FY2022H1. This was mainly dragged down by (1) the rapid deterioration in GPM of social networking businesses (declined 9.9p.p. to 30.9%) due to a significant increase in expenses relating to the revenue sharing to live-streamers (+100% yoy), and (2) the decline in revenue from innovative businesses, which have a higher gross profit margin.

We project GPM to recover with the better earnings prospects of new social networking platforms like YoHo and Yumy. These new apps focus on chat features, and they do not have to share revenue with live-streamers. Therefore, they should have a higher GPM than Mico. On the contrary, the higher cost to live-streamers in Mico could counteract its efforts to improve overall earnings.

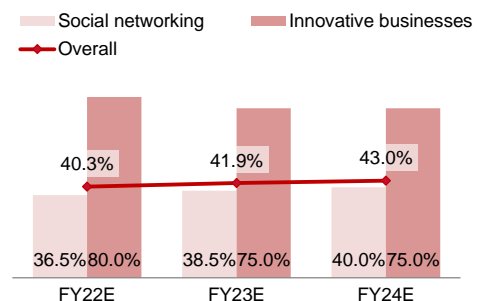
For innovative businesses, we project GPM to decline in the future. This is based on the expectation that leisure games will contribute more revenue to the business.

Exhibit 15: GPM : Review and preview

GPM review in FY21H1 and FY22H1



GPM forecast by segment



Sources: Company, OP research

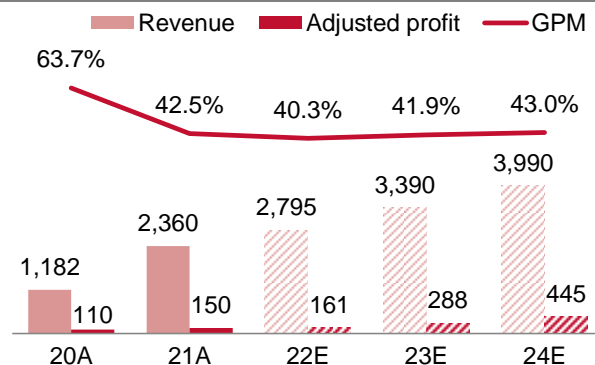
Strong earnings growth from FY23E

We project Newborn Town's adjusted profit to reach RMB161mn/ RMB288mn/ RMB445mn in FY22E/23E/24E, on the back of a 19.1% CAGR in revenue in FY22-24E.

We understand Newborn Town does not intend to acquire the remaining shareholding of Mico in the short term.

The main drivers of earnings come from the new social networking platforms like Yumy and leisure games. The company anticipates Yumy will break-even in FY23E. Newborn Town could capture the entire growth potential of these new platforms, given that it is wholly owned by the company. This is in contrast to Mico and YoHo, which have to share ~40% of its net profit with minority shareholders.

Exhibit 16: Newborn Town's revenue, adjusted profit³ and GPM



Sources: Company, OP research

Risks: (1) Slower-than-expected progress to monetize new social apps and niche games, (2) deterioration of profitability due to the higher cost to live-streamers.

³ Adjusted profit in FY20-FY21 were estimated figures.

Peers comparison

We identified social networking peers like Match Group(MTCH.US), Spark(LOV.US), Bumble(BMBL.US), Zhiwen Group (MOMO.US), and JOYY(JOYY.US) as comparable peers to Newborn Town.

Newborn Town is currently trading at a deep discount to international peers such as Match Group, Spark and Bumble. We attribute this to (1) the relatively low publicity of Newborn Town's social apps, and (2) the lower MPU of the apps. We think Newborn Town deserves a better value for its social network business given the proven profitable model for its mobile-based social networking platforms.

Exhibit 17: Peers comparison

Name of company	Stock code	Main Business	Major apps platform	Revenue (last fiscal year)	MPU in FY21	EV/EBITDA (FY23)	EV/Sales (FY23)
Newborn Town	9911 HK	Provides mobile-based social networking platform	Mico	RMB2.36bn	Averagely 0.3mn	2.5	0.4
Peers							
Match Group	MTCH US	Offers diverse portfolio of apps and services which enables connections across the spectrum of age, race, gender, sexual orientation, and backgrounds.	Tinder	US\$2.98bn	15.5mn	13.2	4.7
Bumble	BMBL US	Offer online dating application that enables users to meet new people for dating, friendship, and relationship worldwide.	Zoosk	US\$766mn	2.8 mn	17.8	4.6
JOYY	YY US	Provides video-based social media platform for live streaming, short form video, social network, e-commerce, education, dating, and web financial solutions	Bigo	US\$2.62bn	3.8mn	-	-
Spark	LOV US	Provides online personals services, offering offers web sites that enables adults to meet online, participates in a community, and form relationships.	Zoosk	US\$217mn	0.87mn	6.7	0.6
Zhiwen Group	MOMO US	Provides mobile-based social networking platform, focusing in China market	Momo	RMB14.6bn	11.4mn	3.2	0.5

Sources: Bloomberg, OP Research

Initiate with BUY with target price of HK\$3.33

We reach the per share value of HK\$3.33 for Newborn Town based on some of the parts (SOTPs) analysis. The TP represents 21.6x/12.3x/8.0x PER for FY22E/23E/24E.

For the social networking business, we value it at 0.87x EV/Revenue for FY23E. This represents a 80% discount compared to our identified peers, Match Group(4.12x) and Bumble(4.60x). They are leading worldwide social dating app operators with sizable customer bases. The discount is to reflect (1) a smaller customer bases and the lower MPU, (2) the lower revenue transparency since most revenue comes from sources other than App Store and Google Play and (3) the company can only share 60% profit of Mico's profit, and Mico has been the major earnings source in the last 2 years.

For innovative businesses, we value them based on a 50% discount (0.42x) to mobile game peers in term of EV/sales. This is mainly due to the lack of niche mobile games on the market, and they are not break-even at this moment.

We made the prudent decision not to include Blued in our valuation model since it is not yet officially consolidated into the company. We await more details before factoring this M&A into our valuation model.

Exhibit 18: SOTP Valuation

	Methodology	Multiple	Value (HK\$)	Per share (HK\$)
Social networking businesses	75% discount to average forward EV/sales of comparable peers (Match Group, Bumble)	0.87	3.05 bn	2.51
Innovative businesses	50% discount to the average forward EV/sales of HK listed small-to-mid cap peers	0.41	150mn	0.13
Add: Cash per share	The Company has net cash of RMB738mn at 30 Jun 2022	-	841mn	0.69
Total equity value			HK\$ 3.33	

Source: Bloomberg, OP Research

Exhibit 19: Peers comparison

Company	Ticker	Price	Mkt cap (US\$m)	3-mth avg t/o (US\$m)	PER Hist (x)	PER FY1 (x)	PER FY2 (x)	3-Yr EPS Cagr (%)	EV/ Sales Hist (x)	EV/ Sales FY1 (x)	EV/ Sales FY2 (x)	Div yld Hist (%)	Div yld FY1 (%)	P/B Hist (x)	P/B FY1 (x)	ROE Hist (%)	ROE FY1 (%)	Sh px 1-mth %	Sh px 3-mth %
Newborn Town	9911 HK	1.95	296	1.5	11.8	12.7	7.2	26.0	0.7	0.5	0.4	0.0	0.0	3.7	4.6	-35.2	11.2	-6.3	+20.4
HSI		21,164.42			11.5	11.8	9.9	8.6	2.3	2.2	-	3.2	3.19	1.2	1.2	10.5	10.4	-2.6	22.2
HSCEI		7,144.45			9.8	9.7	8.5	8.8	2.1	2.1	-	3.5	3.46	1.1	1.1	11.2	11.5	-3.3	21.8
CSI300		4,143.57			14.7	14.3	12.2	10.9	2.3	2.2	-	2.3	2.3	1.8	1.8	12.3	12.3	1.7	9.4
Peers																			
Social platform					21.4	17.2	12.9	6.7	2.9	2.5	4.2	4.2	1.5	2.3	2.7	-2.3	4.5	+0.3	+24.8
Tencent	700 HK	386.60	470,731	1,299.5	14.2	27.8	23.1	-10.2	6.0	6.0	5.4	0.4	0.4	4.3	3.6	21.9	13.3	+4.1	+57.5
Kuaishou	1024 HK	63.25	34,888	255.4	N/A	N/A	N/A	N/A	2.6	2.3	2.0	N/A	-	4.8	6.7	-40.5	-28.6	-15.0	+32.0
Hello -Spn Adr	MOMO US	9.92	1,965	27.6	N/A	7.8	7.3	N/A	0.5	0.5	0.5	6.5	5.2	1.2	1.2	-24.9	14.5	-6.9	+77.8
Joye Inc-Adr	YY US	34.85	2,471	22.8	N/A	16.3	16.0	N/A	-0.1	-0.1	-0.1	5.9	4.5	0.4	0.5	10.1	6.1	-10.5	+17.6
Match Group Inc	MTCH US	45.08	12,591	206.0	35.2	19.0	15.8	39.2	5.0	4.7	4.1	N/A	-	N/A	25.4	N/A	956.7	-2.3	-12.4
Bumble Inc-A	BMBL US	24.32	4,582	42.9	16.0	77.2	67.2	-25.1	6.3	5.4	4.6	N/A	-	1.9	1.6	1.2	2.6	+5.4	-4.5
Spark Net-Adr	LOV US	1.08	28	0.1	N/A	N/A	2.3	N/A	0.5	0.6	0.5	N/A	N/A	0.2	N/A	-122.0	N/A	+35.0	-23.9
Meta Platforms-A	META US	174.15	451,508	4,748.4	20.2	15.3	12.7	22.8	3.8	3.6	3.2	N/A	-	3.6	2.9	18.5	19.1	+27.1	+54.1
Mobile game					8.6	28.8	18.7	-6.0	1.2	1.6	0.8	3.8	0.2	1.4	1.4	-2.7	3.2	+3.2	+34.0
Cmge Technology	302 HK	2.07	730	4.0	7.9	22.8	7.7	11.9	1.4	1.9	1.1	N/A	0.2	0.9	0.8	3.4	2.7	+4.5	+48.9
Qingci Games Inc	6633 HK	5.43	478	0.0	N/A	59.0	7.3	N/A	1.6	2.9	0.8	2.8	0.4	2.0	2.0	-39.5	3.4	-0.5	-3.9
Igg Inc	799 HK	2.95	450	1.8	9.2	N/A	47.0	-21.0	0.3	0.4	0.4	N/A	-	1.1	1.3	-11.2	-11.7	-7.2	+23.9
Archosaur Game	9990 HK	4.94	503	5.8	N/A	N/A	27.2	-28.3	1.9	1.8	1.0	N/A	N/A	1.1	1.3	-16.5	-16.6	+16.2	+66.9
Zengame Technolo	2660 HK	3.18	417	0.8	5.6	4.7	4.3	13.3	1.1	0.9	0.9	4.7	N/A	1.9	1.5	50.3	38.5	+51.4	+102.5

Sources: Bloomberg, OP research

* Outliners and "N/A" entries are in excl. from the calculation of averages

Financial Summary

Year to Dec	FY20	FY21	FY22E	FY23E	FY24E
Income Statement (RMB mn)					
Social networking	658	2,062	2,550	3,070	3,650
Innovative businesses	524	297	245	320	340
Turnover	1,182	2,360	2,795	3,390	3,990
YoY%	+203.2	+99.7	+18.4	+21.3	+17.7
COGS	-429	-1,356	-1,668	-1,968	-2,275
Gross profit	752	1,003	1,127	1,422	1,715
Gross margin	63.7%	42.5%	40.3%	41.9%	43.0%
Other income	-23	-28	0	0	0
Selling & distribution	-484	-505	-545	-644	-718
Admin	-55	-730	-126	-142	-160
R&D	-59	-131	-182	-203	-219
Other opex	0	0	0	0	0
Total opex	-597	-1,366	-852	-990	-1,097
Operating profit (EBIT)	132	-390	274	432	618
Operating margin	11.2%	-16.5%	9.8%	12.7%	15.5%
Provisions	0	0	0	0	0
Interest Income	2	2	2	2	2
Finance costs	-4	-6	-6	-6	-6
Profit after financing costs	130	-394	271	428	614
Associated companies & JVs	-0	-0	-0	-0	-0
Pre-tax profit	130	-394	270	428	614
Tax	-16	7	-14	-51	-92
Minority interests	-75	101	-156	-163	-167
Net profit	40	-286	101	213	355
YoY%	-42.0	N/A	-135.3	+110.9	+66.5
Adjusted profit⁴	110	150	161	288	445
YoY%	+60.5	+36.6	+7.4	+78.9	+54.4
Adjusted net margin	9.3%	8.4%	5.8%	8.5%	11.2%
EBITDA	158	-339	319	470	649
EBITDA margin	13.3%	-14.4%	11.4%	13.8%	16.3%
Adjusted EPS(HK\$)	0.14	0.17	0.15	0.27	0.42
YoY%	+64.7	+22.2	-6.9	+75.8	+54.4
DPS(HK\$)	0.00	0.00	0.00	0.00	0.00
Year to Dec	FY20	FY21	FY22E	FY23E	FY24E
Cash Flow (RMB mn)					
EBITDA	158	-339	319	470	649
Chg in working cap	69	4	106	-4	-22
Others	73	727	60	0	0
Operating cash	299	392	484	466	628
Tax	2	2	2	2	2
Interest received	-5	-0	0	-14	-51
Net cash from operations	296	394	487	454	579
Capex and acquisition	-61	-9	-5	-5	-5
Investments	0	0	0	0	0
Dividends received	0	0	0	0	0
Interest received	0	0	0	0	0
Others	-36	-46	-24	0	0
Investing cash	-97	-55	-29	-5	-5
FCF	199	339	458	449	574
Issue of shares	79	0	286	0	0
Buy-back	-2	0	-25	0	0
Interests paid	0	0	0	0	0
Dividends paid	0	0	0	0	0
Net change in bank loans	0	0	0	0	0
Others	-4	-30	-404	-6	-6
Financing cash	73	-30	-144	-6	-6
Net change in cash	271	309	314	443	568
Exchange rate or other Adj	-23	-15	0	0	0
Opening cash	183	431	725	1,039	1,482
Closing cash	431	725	1,039	1,482	2,050
CFPS (HK\$)	0.334	0.340	0.300	0.416	0.533

Sources: Company, OP Research

Year to Dec	FY20	FY21	FY22E	FY23E	FY24E
Ratios					
Gross margin (%)	63.7	42.5	40.3	41.9	43.0
Operating margin (%)	11.2	-16.5	9.8	12.7	15.5
Net margin (%)	3.4	-12.1	3.6	6.3	8.9
Selling & dist'n exp/Sales (%)	40.9	21.4	19.5	19.0	18.0
Admin exp/Sales (%)	4.7	30.9	4.5	4.2	4.0
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0
Effective tax (%)	-12.2	-1.7	-5.0	-12.0	-15.0
Total debt/equity (%)	1.9	1.8	1.6	1.1	0.8
Net debt/equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	1.9	1.5	1.7	2.0	2.5
Quick ratio (x)	1.9	1.5	1.7	2.0	2.5
Inventory T/O (days)	0	0	0	0	0
AR T/O (days)	45	23	21	19	18
AP T/O (days)	133	61	60	60	60
Cash conversion cycle (days)	-88	-38	-39	-41	-42
Asset turnover (x)	1.2	1.6	1.6	1.6	1.5
Financial leverage (x)	1.4	1.8	1.9	1.8	1.7
EBIT margin (%)	11.2	-16.5	9.8	12.7	15.5
Interest burden (x)	1.0	1.0	1.0	1.0	1.0
Tax burden (x)	0.3	0.7	0.4	0.5	0.6
Return on equity (%)	5.6	-35.2	11.2	18.7	22.5
Year to Dec	FY20	FY21	FY22E	FY23E	FY24E
Balance Sheet (RMB mn)					
Fixed assets	7	16	17	18	19
Intangible assets	267	226	186	152	125
Financial assets	9	30	29	29	29
Right-of-use assets	0	0	0	0	0
Other non-current assets	222	224	198	219	219
Non-current assets	505	496	429	418	392
Inventories	0	0	0	0	0
AR	144	147	161	176	197
Contracted assets	0	0	0	0	0
Prepayments & deposits	6	82	84	102	120
Other current assets	181	173	145	145	145
Cash	431	725	1,039	1,482	2,050
Current assets	763	1,126	1,428	1,905	2,511
AP	156	226	274	324	374
Tax	1	0	0	0	0
Accruals & other payables	235	479	548	593	623
Bank loans	0	0	0	0	0
Leases & other debts	18	22	22	22	22
Other current liabilities	0	0	0	0	0
Current liabilities	409	727	845	939	1,020
Bank loans & leases	0	0	0	0	0
CB & other debts	0	3	3	3	3
Deferred tax & others	72	52	52	52	52
Non-current liabilities	72	55	55	55	55
Total net assets	787	840	957	1,329	1,828
Shareholder's equity	536	477	438	647	979
Share capital	1	1	1	1	1
Reserves	536	476	437	646	978
MI	251	363	519	682	849
BVPS (HK\$)	0.66	0.53	0.43	0.62	0.94

⁴ Adjusted net profit in FY20A-21A were estimated figures.

Appendix I: Company info

Newborn Town is the top China social networking company exclusively focused on the global market. The company has history to build dozens of highly successful apps in the categories of social networking, gaming, and utility, serving more than 1.3 billion global users in over 200 countries and regions.

Company milestones

The company has proven to promote and develop profitable business model in different apps categories

Before Newborn Town transforming into an online social networking operator, the company was used to focus on developing mobile device utilities' app such as screen locker, antivirus and battery management apps. In 2017, it formed an app matrix named "Solo X" after it enriched the mobile apps portfolio by launching apps in media & entertainment, fitness and games.






























The company's Solo X apps matrix was well-received across the globe. As at the end of 2018, Solo X product matrix cumulatively attracted more than 669.9 mn users, average DAUs of Solo Math platform exceeded 347 mn. Solo Launcher had achieved daily ranking No. 1 by downloads at least once in Google Play in 89 countries and regions.

Exhibit 20: Newborn Town is a leading chinese publishers in overseas market terms in Dec 2022

Chinese top 30 non-game publishers in terms of overseas revenue

Rank	Name	Rank	Name
1	ByteDance	16	Yocala Tech (明日虫洞科技)
2	JoYY	17	Renren
3	Tencent	18	Joyme
4	Meitu	19	Daily Yoga
5	iQIYI	20	Dianju
6	Glory	21	Kwaishou
7	INTSIG	22	HiRead
8	Wepie	23	Wondershare
9	Newborn Town	24	Bongmi
10	CHANGDU Tech	25	Cqworm
11	Zhangyue	26	Weijia Intl
12	InShot	27	TP Link
13	Xiaoyi Tech	28	Baidu
14	Hello Group	29	Bilibili
15	QuVideo Tech	30	Ola Chat

Chinese top 30 non-game apps in terms of overseas revenue

Rank	Name	Rank	Name
1	 TikTok	16	 InShot
2	 BIGO LIVE	17	 Trucker Path
3	 iQIYI	18	 MoboReader
4	 WePlay	19	 VivaVideo
5	 CamScanner	20	 Daily Yoga
6	 BeautyPlus	21	 Hinode
7	 Webnovel	22	 YoHo
8	 WeTV	23	 Kwai
9	 Likee	24	 Haochang Party
10	 PictureThis	25	 MeituPic
11	 AirBrush	26	 Liveme
12	 Mico	27	 YiHome
13	 Remini	28	 WeSing
14	 Tantan	29	 Yi IoT
15	 YoYo	30	 Tp-Link Tapo

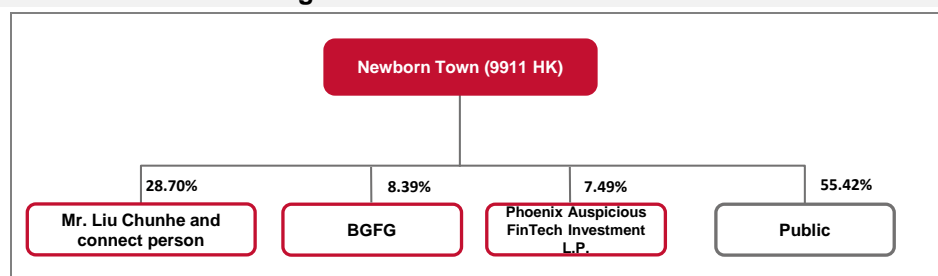
Sources: Data Ai, Open sources, OP Research

Exhibit 21: Key Milestones of Newborn Town



Source: Company

Exhibit 22: Shareholding structure



Sources: Company, OP Research

Exhibit 23: Management profile

Name	Age	Position	Description
Mr. LIU Chunhe	36	Executive Director and Chairman	Mr. Liu is the founder of the Group. He is responsible for the overall management, strategies planning and decision-making of the Company. Mr. Liu Chunhe acts in concert with Mr. Li Ping. Mr. Liu also holds directorships in various subsidiaries of the Company.
Mr. LI Ping	32	Executive Director	Mr. Li is the co-founder of the company. He is responsible for overall operation and management of the business.
Mr. YE Chunjian	30	Executive Director and Chief Technology Officer	Mr. Ye joined the company in June 2014 and is responsible for the research and development of the social networking business. He has been serving as a founding partner of Beijing Mico since February 2017, and his director and manager since June 2018
Mr. Su Jian	47	Executive Director	Mr. Su joined the Group in May 2014 and is responsible for the overall management, strategies planning and decision-making of Beijing Mico. He is the chief executive officer of Beijing Mico.

Sources: Company, OP Research

Our recent reports

Date	Company / Sector	Stock Code	Title	Rating	Analyst
02/02/2023	China Water Affairs	855	Tapping into opportunities in the direct drinking water market	BUY	John Siah
18/01/2023	361 Degrees	1361	The worst has likely passed	BUY	John Siah
05/12/2022	China Edu Group	839	Higher vocational education leads the growth	BUY	John Siah
05/12/2022	New Higher Edu	2001	FY22 results slightly beat, emphasis on quality education	BUY	John Siah
29/11/2022	Edvantage Group	382	FY22 earnings beat, moderate growth ahead	BUY	John Siah
20/10/2022	361 Degrees	1361	Lockdown may impact sales in Q4	BUY	John Siah
20/10/2022	Greentown Mgmt	9979	Impressive new contracts growth in Q3 under severe headwinds	BUY	John Siah
16/09/2022	EVA Holdings	838	Decent earnings outlook supported by strong order backlogs	BUY	John Siah
02/09/2022	Tian Lun Gas	1600	1H22 results missed, tough near-term outlook	HOLD	John Siah
02/09/2022	HK Tech Venture	1137	1H22 results beats amid better costs management	BUY	John Siah
31/08/2022	AAC Tech	2018	Headwinds likely to persist in 2H22E	HOLD	John Siah
31/08/2022	Truly Int'l	732	1H22 earnings decline as expected, negatives priced in	BUY	John Siah
26/08/2022	361 Degrees	1361	1H22 earnings beats, strong growth in e-commerce and kids' wear	BUY	John Siah
03/08/2022	Xinyi Energy	3868	Flat earnings growth in 1H22, slowing M&A pace due to high prices	BUY	John Siah
01/08/2022	Greentown Mgmt	9979	Impressive growth trajectory in 1H22 despite industry headwinds	BUY	John Siah
20/07/2022	361 Degrees	1361	Retail sales in 2Q2022 remained robust, even under COVID lockdown	BUY	John Siah
11/07/2022	Truly Int'l	732	Automotive display missed in 1H22 on weak car sales	BUY	John Siah
07/07/2022	EVA Holdings	838	Kicking off a new growth cycle	BUY	John Siah
04/05/2022	China Edu Group	839	1H22 results showed strong organic growth of higher schools	BUY	John Siah
29/04/2022	Edvantage Group	382	1H22 earnings remains robust despite higher costs	BUY	John Siah
28/04/2022	New Higher Edu	2001	Mixed 1H22 results amid investments to deliver quality education	BUY	John Siah

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