

Newborn Town (9911 HK)

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Company Update

BUY

Maintain

Close price: HK\$1.60

Target Price: HK\$3.80 (+137.5%)

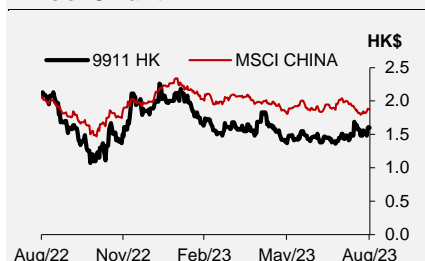
Previous TP HK\$2.60

Key Data

HKEx code	9911 HK
12 Months High (HK\$)	2.30
12 Month Low (HK\$)	1.05
3M Avg Dail Vol. (mn)	1.87
Issue Share (mn)	1,191.22
Market Cap (HK\$mn)	1,905.95
Fiscal Year	12/2022
Major shareholder (s)	Mr. Liu Chunhe(30.71%)

Sources: Company data, Bloomberg, OP Research
Closing price as of 31 Aug 2023

Price Chart



	1mth	3mth	6mth
Absolute %	+6.0	+8.1	-7.5
Rel. MSCI CHINA %	+13.3	+8.7	3.3

PE



Company Profile

Newborn Town is principally engaged in providing value-added service business (mainly including live streaming business), and traffic monetisation business (mainly including in-app traffic monetisation business and mobile advertising platform and related business).

1H23 results beats, Blued as a new growth engine

- Profit attributable to shareholders in 1H23 jumped 124.1% yoy to RMB185.3mn. Revenue was little-changed at RMB1.37bn. The earnings growth was mainly due to the significant improvement of profit for its social networking business.
- Blued, the leading LGBTQ based social networking app, has consolidated into the group in Aug 2023
- Maintain BUY with a new TP of HK\$3.80, which represents 12.3x/8.6x PER in FY23E/24E

1H23 earnings beats. We attribute the strong earnings growth to the significant improvement in gross profit margin (+16.3p.p. yoy to 51.4%). In particular, Gross profit margin of the social networking business expanded 16.9p.p. to 47.8%. This is mainly thanks to the optimization of the content ecosystem, which greatly reduced the expenses relating to revenue sharing to streamers (-36.3% yoy). In addition, the company focuses on developing social networking business in MENA markets, which have more growth potential. In 1H23, revenue from MENA grew >20% yoy and contributed >50% of the overall social networking revenue. For innovative business, Mergeland-Alice's Adventure maintained the growth momentum so that the monthly revenue in 23Q2 exceeded the USD2mn milestone.

More new products. Newborn Town officially launched a companion-based social networking platform named SUGO. The app reported >500% yoy growth of revenue in 1H23. For innovative business, Newborn Town launched two merge mobile game "Taylor's Secret", "Merge Cove" and one logic puzzle game "Sudoku" in 1H23. "Sudoku" was ranked among the top 3 in the list of newly released U.S. medium-sized new casual games in June by data.ai. The company plans to launch 5 niche games in next 2 years.

Newborn Town completed the consolidation of Blued. Newborn Town said Blued has achieved dramatic growth in its overseas operation and commercialisation capabilities, and Blued has made a turnaround by leveraging Newborn Town's expertise. Blued targets markets in Thailand and other Southeast Asian countries, whilst actively expanding its reach into the developed markets like North America, Japan, and South Korea. Meanwhile, Blued will continue to improve revenue structure and increase profit margins for its business in China.

EPS CAGR of 73.6% between FY23-24E. We lift our forecast on Newborn Town's adjusted EPS (in HKD) for FY23E/24E by +38.5%/+40.0%, mainly due to the better profit prospect of its social networking business and the significant contribution from Blued. We expect Blued to contribute a revenue of ~RMB1bn and a net profit of ~RMB100mn for FY24E. Newborn Town has a track record to show its capabilities to launch and monetize social networking apps with different features and different target audiences. We are confident that the company can achieve its target of building up at least two new social networking products with monthly revenue exceeding USD10mn in the next 3 years. Meanwhile, we expect the innovative business to make an earnings turnaround by next year, which is mainly driven by the niche game-related business. The company anticipates that the monthly revenue of Mergeland-Alice's Adventure will be doubled by the end of the year.

Maintain BUY with a new target price of HK\$3.80. We reach our TP based on the SOTP analysis. Of which, we assign HK\$2.87 for the social networking business. The TP represents 12.3x/8.6x PER in FY23E/24E.

Risks: (1) slower-than-expected growth in MAU; (2) regulatory risks; and (3) FX fluctuation.

Exhibit 1: Forecast and Valuation

Year to Dec (RMB mn)	FY20	FY21	FY22	FY23E	FY24E
Revenue	1,182	2,360	2,800	3,480	4,580
Growth (%)		+203.2	+99.7	+18.6	+24.3
Adjusted net profit	110	150	153	347	510
Growth (%)		+60.5	+36.6	+2.1	+126.7
Diluted EPS (HK\$)	0.135	0.165	0.146	0.310	0.441
EPS growth (%)		+64.7	+22.2	-11.5	+112.1
Change to previous EPS (%)				+38.5	+40.0
Consensus EPS (HK\$)				0.253	0.324
ROE (%)	5.6	-35.2	12.5	20.0	20.3
P/E (x)	11.8	9.7	10.9	5.2	3.6
P/B (x)	2.4	3.0	2.3	1.5	1.1
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

Exhibit 2: Earnings Reviews -1H23

	1H22	1H23	%	
Profitability Data(RMB mn)				
Revenue	1,374.2	1,374.6	+0.0%	Mainly driven by the significant increase in profitability of the social networking business
Gross profit	482.4	706.9	+46.5%	
Operating profit	153.8	277.5	+80.4%	
Profit attributable to shareholders	82.7	185.3	+124.1%	
EPS(Basic)	0.07	0.16	+128.6%	
Profitability Ratio(%)				
GPM	35.1%	51.4%	+16.3p.p.	Mainly thanks to the significant improvement of GPM of the social networking business mainly thanks to the adjustments to the social networking content ecosystem which significantly reduced the expenses relating to revenue sharing to streamers.
Operating profit margin	11.2%	20.2%	+9.0p.p.	
NPM	6.0%	13.5%	+7.5p.p.	
Operating Ratio(%)				
Selling and marketing expenses	14.5%	17.9%	+3.4p.p.	Due to intensified efforts to promote the innovative business.
R&D expenses	6.6%	9.9%	+3.3p.p.	Due to the increase in employee benefit expenses
Administrative expenses	3.7%	6.1%	+2.4p.p.	Due to the increase in employee benefit expenses and in consultancy and professional service fee

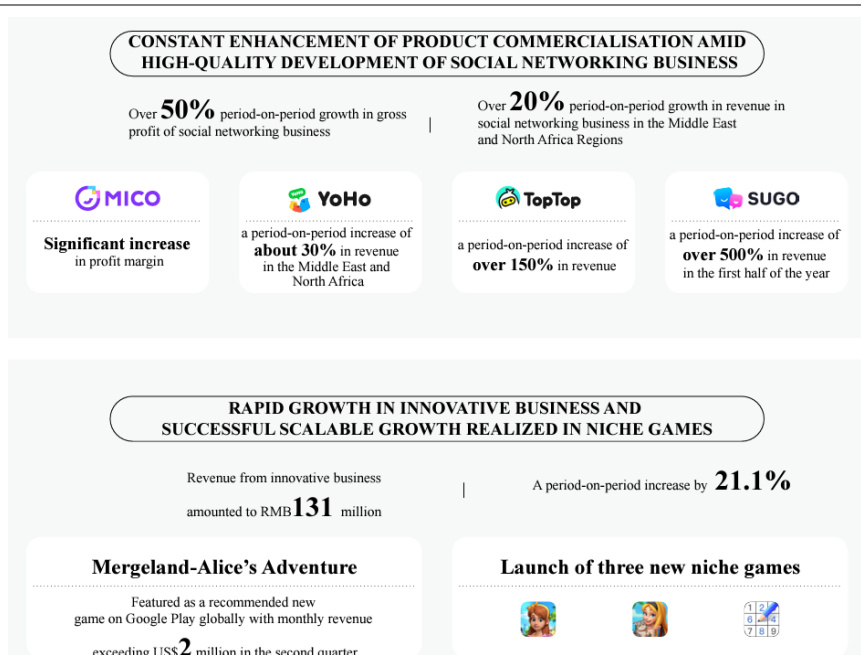
Sources: The Company, OP Research

Exhibit 3: Newborn Town product pipeline

					
MICO	YoHo	TopTop	SUGO	Blued	Mergeland-Alice's Adventure
Open social networking platform	Audio social networking platform	Game-oriented social networking	Companion-based social networking platform	Multi-crowd social networking platform	Niche synthetic mobile game

Source: The Company

Exhibit 4: Newborn Town's achievement during 1H23



Source: The Company

Exhibit 5: Earnings Revision

(RMB mn)	FY23E			FY24E			Reason for changes
	New	Old	% Chg	New	Old	% Chg	
Revenue	3,480	3,200	+8.7%	4,580	3,580	+27.9%	Mainly thanks to the contribution from the newly acquired Blued. We expect Blued to contribute ~RMB1bn of revenue in FY24E.
Gross margin	49.8%	41.9%	+7.9p.p.	49.0%	43.0%	+6.0p.p.	Mainly thanks to the optimization of the profit model for its existing social networking products.
Adjusted Profit	347	238	+45.9%	510	336	+51.8%	Mainly thanks to the improvement of profitability and the contribution of the newly acquired Blued
Adjusted EPS (HK\$)(Diluted)	0.310	0.224	+38.5%	0.441	0.315	+40.0%	

Source: OP Research

Exhibit 6: SOTP Valuation

	Methodology	Multiple	Value (HK\$)	Per share (HK\$)
Social networking business	80% discount to average forward EV/sales(4.0x) of comparable peers (Match Group, Bumble, Facebook) for FY24E	0.80	3.48bn	2.87
Innovative business	20% discount to the average forward EV/sales of HK listed small-to-mid cap peers for FY24E	0.54	301mn	0.25
Add: Net cash	The Company has net cash of RMB775mn as at 30 Jun 2023	-	834mn	0.68
			Equity Value:	HK\$3.80

Source: Bloomberg, OP Research

Exhibit 7: 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)	2-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	1.60	243	0.4	10.9	5.2	3.6	73.6	0.6	0.4	0.4	0.0	0.0	2.3	1.5	12.5	20.0	+6.0	+8.1
HSI		18,382.06			10.2	9.2	8.4	9.5	2.1	2.0	-	3.8	3.89	1.0	1.0	9.7	11.1	-8.1	+0.9
HSCEI		6,332.42			9.1	8.5	7.7	9.7	1.9	1.8	-	3.6	3.64	0.9	1.0	10.4	11.5	-7.6	+3.0
CSI300		3,765.27			13.8	12.2	10.5	14.7	2.1	1.9	-	2.6	2.6	1.6	1.5	11.7	12.4	-5.8	-1.1
Peers																			
Social platform					23.0	19.8	18.1	20.2	3.0	2.6	4.8	4.8	0.9	2.9	2.8	8.7	11.9	-6.4	+19.1
Tencent	700 HK	325.00	396,021	811.6	15.2	19.5	16.7	1.0	5.4	4.8	4.3	0.7	0.7	3.7	3.3	26.2	16.1	-8.3	+4.6
Kuaishou	1024 HK	64.20	35,655	176.9	N/A	34.6	18.6	N/A	2.6	2.1	1.9	N/A	-	4.9	5.6	-8.8	7.3	-4.5	+21.1
Hello -Spn Adr	MOMO US	9.53	1,800	11.9	9.1	6.6	6.2	15.9	0.6	0.6	0.6	7.7	5.8	1.2	1.3	16.7	17.1	-10.5	+18.1
Joyy Inc-Adr	YY US	34.09	2,113	16.2	20.5	15.2	14.0	18.5	-0.2	-0.3	-0.2	6.0	4.6	0.4	0.5	6.0	3.1	-1.9	+37.5
Meta Platforms-A	META US	295.10	759,340	7,066.3	34.2	21.5	17.0	32.3	6.4	5.6	5.0	N/A	-	5.7	5.1	17.4	24.8	-7.4	+11.5
Match Group Inc	MTCH US	46.20	12,848	205.7	36.1	21.4	17.4	33.1	5.0	4.7	4.2	N/A	-	N/A	2,566	N/A	-315	-0.7	+33.9
Bumble Inc-A	BMBL US	16.32	3,187	40.9	N/A	72.2	24.8	N/A	3.8	3.2	2.7	N/A	-	1.3	1.3	-5.3	3.0	-11.9	+6.7
Spark Net-Adr	LOV US	0.20	5,240	0.4	N/A	N/A	N/A	N/A	0.5	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-20.8	-76.0
Mobile game					4.1	8.6	21.7	N/A	1.6	0.8	0.7	N/A	2.0	1.4	1.3	0.4	3.4	-10.2	-16.3
Comge Technology	302 HK	1.44	505	2.5	N/A	7.6	5.3	N/A	1.4	0.9	0.7	N/A	3.2	0.6	0.5	-2.2	8.2	-20.0	-27.6
Qingci Games Inc	6633 HK	4.82	425	0.0	63.7	9.7	5.9	N/A	2.4	0.8	0.6	N/A	3.1	1.7	1.5	2.9	20.2	-8.2	-19.7
Igg Inc	799 HK	3.68	562	2.5	N/A	N/A	7.1	N/A	0.6	0.5	0.5	N/A	-	1.9	2.0	-25.4	-10.9	-7.1	-10.0
Archosaur Game	9990 HK	3.63	370	2.4	N/A	N/A	21.7	N/A	2.5	1.1	0.9	N/A	1.8	1.1	1.1	-25.6	-3.6	-16.2	-6.9
Zengame Tech	2660 HK	3.03	398	1.1	4.1	N/A	N/A	N/A	0.7	N/A	N/A	11.9	N/A	1.5	N/A	49.1	N/A	-9.3	-17.2

Sources: Bloomberg, OP research

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

Financial Summary

Year to Dec	FY20	FY21	FY22	FY23E	FY24E
Income Statement (RMB mn)					
Social networking	658	2,096	2,557	3,080	4,060
Innovative business	524	264	242	400	520
Turnover	1,182	2,360	2,800	3,480	4,580
YoY%	+203.2	+99.7	+18.6	+24.3	+31.6
COGS	-429	-1,356	-1,742	-1,746	-2,335
Gross profit	752	1,003	1,058	1,734	2,245
Gross margin	63.7%	42.5%	37.8%	49.8%	49.0%
Other income	-23	-28	19	37	0
Selling & distribution	-484	-505	-484	-674	-824
Admin	-55	-730	-112	-219	-265
R&D	-59	-131	-212	-334	-402
Other opex	0	0	0	0	0
Total opex	-597	-1,366	-808	-1,228	-1,492
Operating profit (EBIT)	132	-390	269	543	753
Operating margin	11.2%	-16.5%	9.6%	15.6%	16.4%
Provisions	0	0	0	0	0
Interest Income	2	2	1	0	0
Finance costs	-4	-6	-2	-2	-2
Profit after financing costs	130	-394	269	542	752
Associated companies & JVs	-0	-0	19	28	42
Pre-tax profit	130	-394	287	570	794
Tax	-16	7	0	-28	-79
Minority interests	-75	101	-157	-228	-249
Net profit	40	-286	130	313	466
YoY%	-42.0	-821.3	-145.5	+140.7	+48.5
Adjusted net profit¹	110	150	153	347	510
YoY%	+60.5	+36.6	+2.1	+126.7	+46.9
Adjusted net margin	9.3%	6.4%	5.5%	10.0%	11.1%
EBITDA	158	-339	314	606	807
EBITDA margin	13.3%	-14.4%	11.2%	17.4%	17.6%
Adjusted EPS(HK\$)	0.135	0.165	0.146	0.310	0.441
YoY%	+64.7	+22.2	-11.5	+112.1	+42.1
DPS(HK\$)	0.00	0.00	0.00	0.00	0.00
Year to Dec	FY20	FY21	FY22	FY23E	FY24E
Cash Flow (RMB mn)					
EBITDA	158	-339	314	606	807
Chg in working cap	69	4	-447	-11	57
Others	73	727	445	0	0
Operating cash	299	392	312	595	864
Tax	2	2	1	1	0
Interest received	-5	-0	-0	0	-28
Net cash from operations	296	394	313	596	836
Capex and acquisition	-61	-9	-11	-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	-346	0	0
Investing cash	-97	-55	-357	-5	-5
Issue of shares	79	0	282	0	0
Buy-back	-2	0	-13	-30	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	-409	-2	-2
Financing cash	73	-30	-140	-32	-2
Net change in cash	271	309	-184	560	829
Exchange rate or other Adj	-23	-15	56	0	0
Opening cash	183	431	725	597	1,157
Closing cash	431	725	597	1,157	1,986
CFPS (HK\$)	0.334	0.340	-0.175	0.500	0.717

Sources: Company, OP Research

Year to Dec	FY20	FY21	FY22	FY23E	FY24E
Ratios					
Gross margin (%)	63.7	42.5	37.8	49.8	49.0
Operating margin (%)	11.2	-16.5	9.6	15.6	16.4
Net margin (%)	3.4	-12.1	4.7	9.0	10.2
Selling & dist'n exp/Sales (%)	40.9	21.4	17.3	19.4	18.0
Admin exp/Sales (%)	4.7	30.9	4.0	6.3	5.8
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0
Effective tax (%)	12.2	1.7	0.0	-5.0	-10.0
Total debt/equity (%)	1.9	1.8	1.5	1.0	0.7
Net debt/equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	1.9	1.5	2.8	4.6	5.9
Quick ratio (x)	1.9	1.5	2.8	4.6	5.9
Inventory T/O (days)	0.0	0.0	0.0	0.0	0.0
AR T/O (days)	45	23	21	19	18
AP T/O (days)	133	61	40	38	35
Cash conversion cycle (days)	-88	-38	-18	-19	-17
Asset turnover (x)	1.2	1.6	1.7	1.7	1.6
Financial leverage (x)	1.4	1.8	1.6	1.3	1.2
EBIT margin (%)	11.2	-16.5	9.6	15.6	16.4
Interest burden (x)	1.0	1.0	1.1	1.0	1.1
Tax burden (x)	0.3	0.7	0.5	0.6	0.6
Return on equity (%)	5.6	-35.2	12.5	20.0	20.3

Year to Dec	FY20	FY21	FY22	FY23E	FY24E
Balance Sheet (RMB mn)					
Fixed assets	7	16	122	113	97
Intangible assets	267	226	186	182	149
Goodwill	197	197	197	279	279
Financial assets	9	30	214	214	214
Other non-current assets	25	27	24	23	23
Non-current assets	505	496	744	811	762
Inventories	0	0	0	0	0
AR	144	147	165	181	226
Contracted assets	0	0	0	0	0
Prepayments & deposits	6	82	57	71	93
Other current assets	181	173	158	158	158
Cash	431	725	597	1,157	1,986
Current assets	763	1,126	977	1,567	2,463
AP	156	226	190	182	224
Tax	1	0	5	5	5
Accruals & other payables	235	479	110	110	147
Bank loans	0	0	0	0	0
Leases & other debts	18	22	44	44	44
Other current liabilities	0	0	0	0	0
Current liabilities	409	727	349	341	420
Bank loans	0	0	0	0	0
Leases & other debts	0	3	86	86	86
Deferred tax & others	72	52	47	47	47
Non-current liabilities	72	55	133	133	133
Total net assets	787	840	1,238	1,904	2,672
Shareholder's equity	536	477	708	1,146	1,665
Share capital	1	1	1	1	1
Reserves	536	476	707	1,145	1,664
MI	251	363	530	758	1,007
BVPS (HK\$)	0.66	0.53	0.69	1.04	1.47

¹ Adjusted net profit in FY20A-22A are estimated figures.

Our recent reports

Date	Company / Sector	Stock Code	Title	Rating	Analyst
18/08/2023	361 Degrees	1361	1H23 net profit rose 27.7%, resumes dividend payout	BUY	John Siah
04/08/2023	361 Degrees	1361	1H23 net profit grow by more than 25%	BUY	John Siah
04/08/2023	Xinyi Energy	3868	1H23 net profit in-line, dividend payout ratio cut to 49%	HOLD	John Siah
04/08/2023	Greentown Mgmt	9979	Impressive results in 1H23 backed by strong contracts growth	BUY	John Siah
31/07/2023	Edvantage Group	382	9M22/23 operating results in-line with expectation	BUY	John Siah
03/07/2023	China Water Affairs	855	FY22/23 earnings slightly declined, pipeline direct drinking water shines	BUY	John Siah
22/05/2023	Newborn Town	9911	Fine-tuning content ecology to further monetize new social networking products	BUY	John Siah
05/05/2023	China Edu Group	839	FY1H23 results up to expectations	BUY	John Siah
04/05/2023	Edvantage Group	382	FY1H23 results showed the strong organic growth	BUY	John Siah
27/04/2023	New Higher Edu	2001	FY1H23 results in-line	BUY	John Siah
19/04/2023	361 Degrees	1361	2023Q1 sales bounced as expected	BUY	John Siah
24/03/2023	Micro Connect	-	Releasing the investment value of SMEs in China through technological innovation(中/ENG)	NR	John Siah
02/03/2023	Xinyi Energy	3868	FY22 results miss, expecting a rebound for FY23E	BUY	John Siah
24/02/2023	Edvantage Group	382	FY23Q1 operations on track	BUY	John Siah
13/02/2023	Newborn Town	9911	More social apps expecting to begin bearing fruit	BUY	John Siah
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

Historical recommendations and target price: Newborn Town (9911 HK)

(as of 31 Aug 2023)

(HK\$)



	Date	Rating	TP	Close
1	13 Feb 2023	BUY	HK\$3.33	HK\$1.95
2	22 May 2023	BUY	HK\$2.60	HK\$1.54
3	4 Sept 2023	BUY	HK\$3.80	HK\$1.60

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