

Boyya (434 HK)

Hold (downgraded)

Target price: HK\$6.00



Ryan Zhu, CPA

SFC CE No. BDK820

zhuran@gfgroup.com.hk

+86-0755-88263160

Joseph Ho, CFA

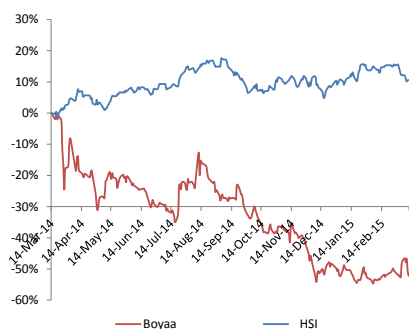
SFC CE No. AFP308

josephho@gfgroup.com.hk

+852-37191030

GF Securities (Hong Kong) Brokerage Limited
29-30/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

Stock performance



Source: Bloomberg

Key data

Mar 17 price (HK\$)	5.70
Shares in issue (m)	762
Major shareholder	Zhang Wei: 34.35%; Sequoia Capital: 15.20%
Market cap (HK\$ bn)	4.34
3M avg. vol. (m)	1.73
52W high/low (HK\$)	11.70 / 5.18

Source: Bloomberg

Downgrade to Hold on weakening overseas markets and gross margin contraction

FY14 results below expectation FY14 net profit surged 107% YoY to Rmb280m, 10% below our estimate, mainly due to a lower-than-expected gross margin in 2H14. Revenue rose 39% YoY to Rmb945m, mainly thanks to a 95% YoY increase in mobile game revenue (57% of total); web game revenue remained flat. The domestic market was the main growth driver, with revenue up 96% YoY to Rmb426m (45% of total), while overseas revenue rose by a moderate 12% YoY.

Quarterly revenue growth slowdown on weakening overseas markets 4Q14 revenue was flat at Rmb244m. QoQ revenue growth has slowed compared to 15% in 4Q13 and 3% in 3Q14, mainly due to weakening overseas market performance. Overseas market revenue declined 18% YoY and 10% QoQ to Rmb113m in 4Q14 (46% of 4Q14 revenue). Management attributed this mainly to player loss in Thailand (which accounted for 26% of total revenue in 2013) due to the political unrest in early 2014.

High concentration on single core game The Texas Hold'em Series remains the major revenue contributor, accounting for 73% of 4Q14 revenue (86% in 4Q13). However, revenue from the series continued to decline, dropping 3% QoQ in 4Q14 following a 4% QoQ decline in 3Q14, also due to weak overseas markets. Fight the Landlord surprised with continued revenue growth, up 15.5% QoQ and 151% YoY in 4Q14, accounting for 21% of total revenue.

Gross margin contraction 4Q14 gross margin declined 3pp YoY to 56.7%, mainly due to higher domestic channel costs for mobile games. Domestic channels such as the 360 Mobile Assistant commonly charge around 50% of gross revenue for mobile games, while major overseas channels such as the Apple Store and Google Play take around 30%. We expect further gross margin contraction given the rising revenue contribution from mobile games in mainland China.

More emphasis on offline events We believe offline events are an efficient way of promoting online games and improving brand awareness amid intensifying competition. The company plans to put more emphasis on offline events including co-organization of Chinese WCA (World Cyber Arena) competitions in FY15. However, we believe it remains in an early stage to build an influential brand in this area, given its weakness in experience, game platform resources and recognition from world-class poker organizations and sponsors.

Downgrade to Hold; cut target price The company indicated that its overseas user base has been gradually recovering. However, we are cautious about this given the consecutive revenue decline seen in the past two quarters. 1Q15 results may remain weak as it is the traditional low season. We therefore suggest to wait and see if the company can recover its growth in overseas markets. We lower our EPS estimate for FY15 by 26% to Rmb0.44 to reflect concerns about overseas revenue as well as further gross margin contraction. We downgrade our rating from Buy to Hold and cut our target price from HK\$11.20 to HK\$6.00, based on our new estimate and a lower FY15 P/E of 11x (down from 15x), following the sector-wide valuation decline last year. The company is trading at 10.5x FY15E P/E. Upside risks include a faster-than-expected recovery in overseas markets and successful organization of WCA competitions. Downside risks include policy risk related to online card-and-board games and uncertainty in overseas markets.

Stock valuation

	Turnover (Rmb m)	YoY (%)	Net profit (Rmb m)	YoY (%)	EPS (Rmb cents)	YoY (%)	P/E	P/B	ROE (%)	ROA (%)	Dividends yield (%)
2013	681	32	136	-5	25	-17	18.1	2.3	17.9	14.4	2.4
2014	945	39	280	107	38	49	12.1	2.3	20.8	17.9	2.7
2015E	1,126	19	326	16	44	16	10.5	2.0	20.5	17.6	2.9
2016E	1,312	16	380	17	51	17	9.0	1.7	20.6	17.9	3.3
2017E	1,540	17	448	18	61	18	7.6	1.5	20.9	18.3	4.0

Sources: Company data, GF Securities (HK)

Note: Calculated based on diluted shares.

Figure 1: 4Q14 and FY14 results summary

(Rmb m)	4Q13	1Q14	2Q14	3Q14	4Q14	YoY	QoQ	2013A	2014A	YoY
Turnover	199	222	236	243	244	22%	0%	681	945	39%
Cost of sales	(81)	(88)	(86)	(98)	(106)			(265)	(377)	
Gross profit	119	133	151	146	138	16%	-5%	416	568	36%
Gross margin (%)	60	60	64	60	57	(2.9)	(3.1)	61	60	(1.0)
Selling and marketing exp.	(43)	(43)	(45)	(45)	(45)			(148)	(179)	
Admin exp.	(43)	(27)	(28)	(28)	(35)			(111)	(117)	
Other gains and loss	5	8	14	15	18			19	55	
Operating profit	38	72	91	87	76	101%	-12%	176	327	85%
Op. margin (%)	19	32	39	36	31	12.2	(4.5)	26	35	8.7
Financial income	0	6	1	1	1			2	9	
Financial costs	3	(3)	(3)	(0)	0			(14)	(6)	
Pre-tax income	41	75	91	90	79	90%	-13%	165	335	103%
Taxation	(7)	(13)	(16)	(14)	(13)			(29)	(55)	(26)
Effective tax (%)	18	17	17	16	17			18	17	
Net profit	34	62	76	76	66	94%	-13%	136	280	107%
Net margin (%)	17	28	32	31	27	10.0	(4.3)	20	30	9.7
Adjusted net profit	58	72	82	82	70	21%	-14%	219	306	40%
Net margin (%)	29	32	35	34	29	(0.3)	(4.9)	32	32	0.3

Sources: Company data, GF Securities (HK)

Figure 2: Quarterly revenue and gross margin

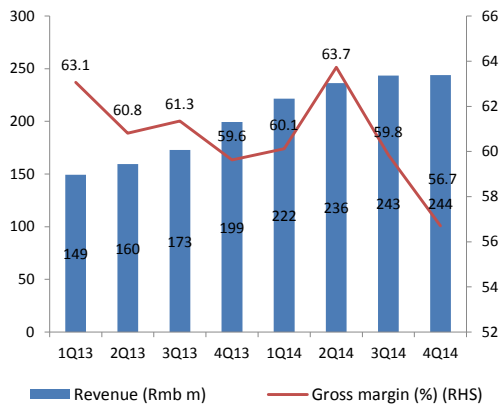
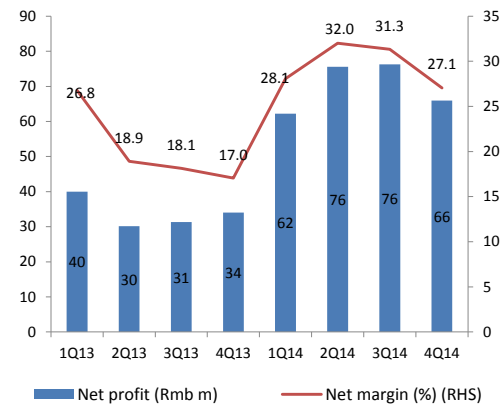


Figure 3: Quarterly net profit and net margin



Sources: Company data, GF Securities (HK)

Sources: Company data, GF Securities (HK)

Figure 4: Quarterly domestic and overseas revenue

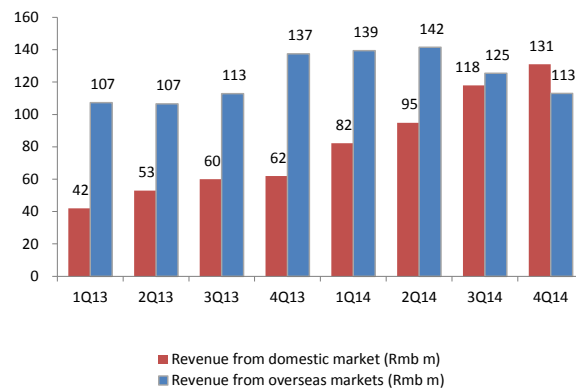
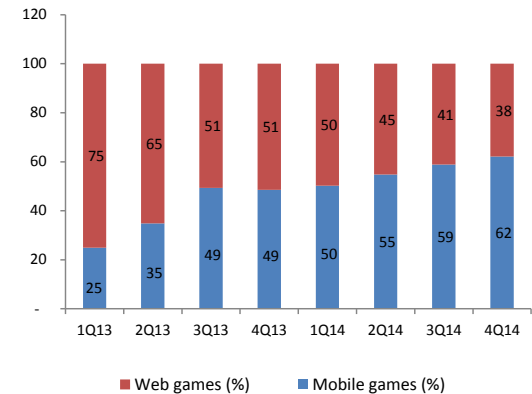


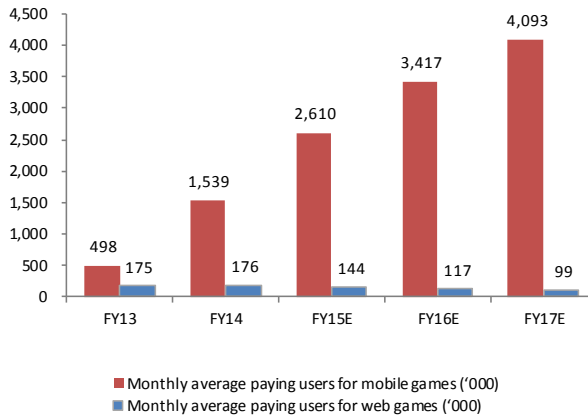
Figure 5: Revenue breakdown by game type



Sources: Company data, GF Securities (HK)

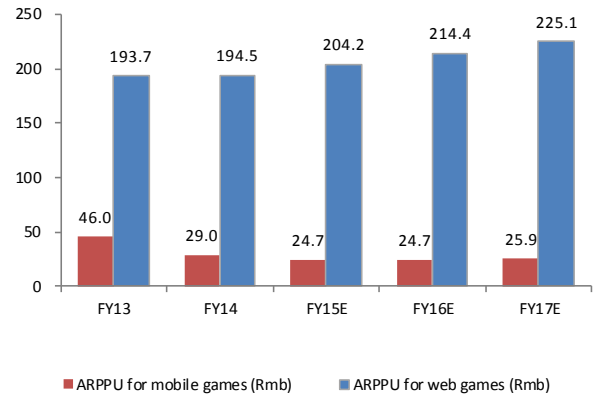
Sources: Company data, GF Securities (HK)

Figure 6: Monthly average paying users forecasts



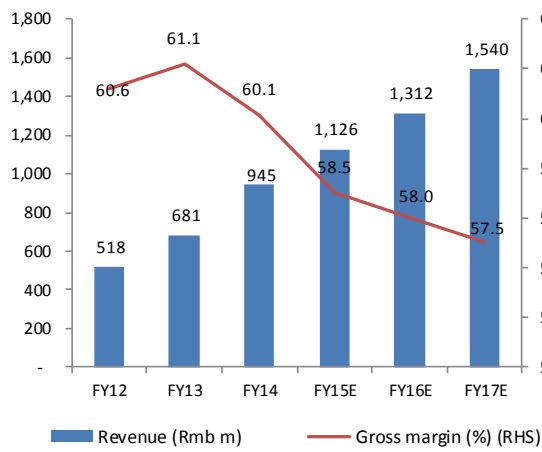
Sources: Company data, GF Securities (HK)

Figure 7: Average revenue per paying user forecasts



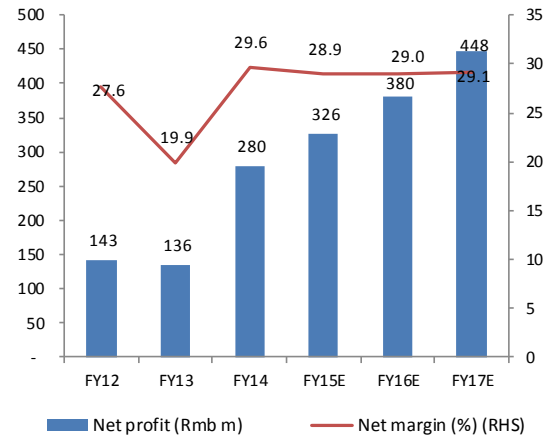
Sources: Company data, GF Securities (HK)

Figure 8: Forecast of revenue and gross margin



Sources: Company data, GF Securities (HK)

Figure 9: Forecast of net profit and net margin



Sources: Company data, GF Securities (HK)

Figure 10: Financial statements

Income Statement						Balance Sheet					
Year end Dec (Rmb m)	2013	2014	2015E	2016E	2017E	Year end Dec (Rmb m)	2013	2014	2015E	2016E	2017E
Web games	406	410	354	301	268	Cash/ST Investments	1,189	1,399	1,671	1,912	2,284
Mobile games	275	536	772	1,011	1,272	Account and other receivables	79	127	120	168	170
Turnover	681	945	1,126	1,312	1,540	Other Current Assets	107	-	0	-	-
YoY (%)	32	39	19	16	17	Total current assets	1,375	1,527	1,791	2,080	2,453
Cost of sales	(265)	(377)	(467)	(551)	(655)	Property, plant & equipment	11	15	17	16	13
Gross profit	416	568	659	761	886	Intangible assets	1	20	21	22	23
Other gains	19	55	62	75	92	Other LT Assets	22	152	152	152	152
Selling&marketing exp.	(148)	(179)	(220)	(256)	(293)	Total non-current assets	33	187	190	190	188
Admin exp.	(111)	(117)	(130)	(144)	(169)	Total Assets	1,408	1,714	1,981	2,271	2,642
Operating profit	176	327	372	436	516	Trade and other payables	98	115	132	156	182
Financial income	2	9	10	10	10	Deferred revenue	39	24	43	35	57
Financial costs	(14)	(6)	(5)	(5)	(5)	Other Current Liabilities	56	78	78	78	78
Share in associates	0	6	6	6	6	Total current liabilities	193	218	253	270	317
Pre-tax income	165	335	383	447	527	LT Debt	-	-	-	-	-
Taxation	(29)	(55)	(57)	(67)	(79)	Other LT Liab	1	14	14	14	14
Net profit	136	280	326	380	448	Total non-current liabilities	1	14	14	14	14
YoY (%)	(5)	107	16	17	18	Shareholders' Equity	1,215	1,472	1,704	1,979	2,303
Adjusted net profit	219	306	341	388	453	Total Equity & liabilities	1,408	1,714	1,981	2,271	2,642
YoY (%)	37	40	11	14	17	BPS (RMB)	2.0	2.0	2.3	2.7	3.1
Diluted EPS (Rmb cents)	25	38	44	51	61	YoY (%)	228.6	-1.4	15.1	16.1	16.4
YoY (%)	(17)	49	16	17	18						
Adjusted diluted EPS (Rmb cents)	37	42	46	52	61						
YoY (%)	12	14	11	14	17						

Cash Flow Statement						Financial Ratio					
Year end Dec (Rmb m)	2013	2014	2015E	2016E	2017E	Year end Dec	2013	2014	2015E	2016E	2017E
Pretax profit	165	335	383	447	527	Margins					
Tax Paid	(17)	(55)	(57)	(67)	(79)	Gross margin (%)	61.1	60.1	58.5	58.0	57.5
Depr/Amort	4	6	9	12	15	EBITDA margin (%)	26.4	35.2	33.8	34.1	34.5
Change in working capital	9	(46)	43	(32)	46	Operating margin (%)	25.9	34.6	33.0	33.2	33.5
Others	50	(5)	-	-	-	Net margin (%)	19.9	29.6	28.9	29.0	29.1
Operational cash flow	211	235	377	359	509	Adjusted net margin(%)	32.1	32.4	30.3	29.6	29.4
Capex	(7)	(11)	(12)	(12)	(13)	Returns and profitability					
Assoc, MI, Invsmt	34	93	(0)	-	0	ROE (%)	17.9	20.8	20.5	20.6	20.9
Investment cash flow	27	82	(12)	(12)	(13)	ROA (%)	14.4	17.9	17.6	17.9	18.3
New Capital	742	7	-	-	-	Sales/assets (x)	0.5	0.6	0.6	0.6	0.6
Dividend	-	(112)	(94)	(106)	(124)	Working capital					
Others	(63)	(1)	-	-	-	Receivables (days)	35.4	39.8	40.0	40.0	40.0
Financing cash flow	680	(106)	(94)	(106)	(124)	Inventory (days)	-	-	-	-	-
FX and others	(3)	(0)	-	-	-	Payable (days)	43.0	41.1	40.0	40.0	40.0
Chg in Cash	917	211	272	241	371	Financial health					
Beginning cash	275	1,189	1,399	1,671	1,912	Current ratio (x)	7.1	7.0	7.1	7.7	7.7
Ending cash	1,189	1,399	1,671	1,912	2,284	Net gearing (%)	cash	cash	cash	cash	cash
						Others					
						Effective tax ratio(%)	17.7	16.5	15.0	15.0	15.0
						Dividend payout (%)	48.4	32.8	30.0	30.0	30.0

Sources: Company data, GF Securities (HK)

Rating definitions

Benchmark: Hong Kong Hang Seng Index

Time horizon: 12 months

Company ratings

Buy	Stock expected to outperform benchmark by more than 15%
Accumulate	Stock expected to outperform benchmark by more than 5% but not more than 15%
Hold	Expected stock relative performance ranges between -5% and 5%
Underperform	Stock expected to underperform benchmark by more than 5%

Sector ratings

Positive	Sector expected to outperform benchmark by more than 10%
Neutral	Expected sector relative performance ranges between -10% and 10%
Cautious	Sector expected to underperform benchmark by more than 10%

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29-30/F, Li Po Chun Chambers, 189 Des Voeux Road Central, Hong Kong

Tel: +852 3719 1111 Fax: +852 2907 6176 Website: <http://www.gfgroup.com.hk>