

27 March 2015

**Outperform**  
**Downgrade**

# 加大在线教育投入

网龙 (777:HK)

## Market Data: Mar, 26

Closing Price (HK\$)	15.82
Price Target (HK\$)	17.1
HSCEI	11,919
HSCCI	4,515
52-week High/Low (HK\$)	17.06/11.48
Market Cap (US\$m)	1,006
Market Cap (HK\$m)	7,805
Shares Outstanding (m)	493
Exchange Rate (Rmb-HK\$)	1.26

## Price Performance Chart:



Source: Bloomberg

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## Related Reports

"Netdragon Websoft (777 HK) – Safe play" March 06, 2015

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## Financial summary and valuation

	2012	2013	2014E	2015E	2016E
Revenue (Rmbm)	826	885	963	1,107	1,566
YoY (%)	8.6	7.1	8.9	15.0	41.4
Net income (Rmbm)	282	164	177	158	186
YoY (%)	108.7	(41.7)	7.5	(10.6)	17.5
EPS (Rmb)	0.08	0.32	0.35	0.31	0.37
Diluted EPS (Rmb)	0.08	0.32	0.34	0.31	0.36
ROE (%)	2.8	132.8	3.7	3.3	3.7
Debt/asset (%)	42.1	15.2	11.7	12.4	14.6
Dividend Yield (%)	2.3	54.0	1.6	1.2	1.5
PE (x)	162.85	38.66	36.11	40.40	34.37
PB (x)	4.51	1.37	1.38	1.34	1.28
EV/Ebitda (x)	14.79	19.11	19.38	19.47	15.90

Note: Diluted EPS is calculated as if all outstanding convertible securities, such as convertible preferred shares, convertible debentures, stock options and warrants, were exercised. P/E is calculated as closing price divided by each year's EPS.

## 投资要点:

**四季度运营费用高企致亏损。**四季度，收入达人民币 2.83 亿，同比增长 21.6%（超我们估算的 2.5 亿），主要收益于游戏业务强劲的海外市场表现和英魂之刃在国内的良好表现。同时，网龙加大了对教育业务的营销推广力度并且招募了大量研发人员，致使公司录得 1940 万的净亏损（vs.上季度录得 5260 万净利润）。董事会建议派发末期股息每股 0.2 港币（vs. 全年每股收益 0.438 港币）。

**持续加大教育业务投入。**四季度，营销费用环比增长 32.8%，主要由于公司加大了广告营销开支投入；行政开支增长 55.9%，主要由于员工成本、招聘费用增长所致；研发成本环比增长 32.5%，主要由于研发团队扩招（目前公司的产品设计、研发团队超过 350 人）以及外包费用增长所致。15 年，网龙仍将持续加大对在线教育业务的投入，将主要体现在内容获取、营销活动以及教育人才招聘。管理层预计每月将投入 1000 万于员工成本、1500 万于内容获取以及外包成本，并将适时增加投入。

**15 年着力于教育平台打造和市场培育。**网龙致力于 K12 教育生态圈建立，并为学校提供一体化的智能教育解决方案。除了自研，公司还积极与领先的教育机构、学校，如北京师范大学，等在内容和教学方式上进行合作开发。此外，公司也在与多家大型出版商和合作伙伴进行探讨，以丰富其自身平台资源。

**下调至增持评级。**2015/16 年 EPS 由人民币 0.52/0.57 下调至 0.311/0.37，以反映公司大额投入教育业务。大规模 101pad 出货将在三季度开始；盈利预测或将有有望上调。维持港币 17.1 的目标价，主要包括每股港币 8.9 的现金价值、港币 3.2 的现有业务价值（对应 8x15PE）、港币 5.0 的教育业务估值（网龙拥有 77.96%的贝斯特股权，给予其 A 轮融资估值 15%折扣）；目标价对应当前股价 8.5%空间，因此下调至增持评级。自从我们 3 月 6 日推荐“买入”报告以来，公司股价已有 15%涨幅；我们认为市场正逐渐认识到教育业务给网龙带来的增长潜力。

**催化剂。**101pad 出货量强劲、在线教育业务落地进展良好

**风险。**101pad 出货进程慢于预期、PC 端游放缓快于预期

## Investment highlight:

**4Q recorded net loss on higher opex.** During the quarter, total revenue was Rmb282.9mn, +21.6% YoY (exceeding our estimate of Rmb250mn), driven by better game performance in overseas market and solid performance of Calibur of Spirit Online. Due to heavy spending on marketing promotion and new headcount hiring for online education business, ND recorded a net loss of Rmb19.4mn in 4Q14, vs a net profit of 52.6mn in 3Q14. ND proposed a final dividend of HK\$0.2 per share (vs. 2014EPS of HK\$0.438).

**Rising investment on online education.** 4Q14 loss was resulted from a surge in s&m (+32.8% QoQ) on marketing promotions, admin expenses (+55.9% QoQ) on staff costs & recruiting fees and R&D (+32.6% QoQ) on education-related R&D staff costs (over 350 staff). Going forward, ND is expected to continuously spending aggressively on content acquisition, marketing spending as well as R&D talent acquisition. Mgmt. expects to spend approx. Rmb10mn/month on staff cost, mostly on R&D, and Rmb15mn/month on content acquisition and outsourcing.

**Platform establishment and market exploration in 2015.** ND's focusing on K-12 education ecosystem building and aiming to provide an integrated total solution to schools. Besides, self-building, ND's actively cooperating with well-known education institutions, such as Beijing Normal University, on content partnership and pedagogy integration, to provide integrated teaching models with rich & comprehensive educational resources. Moreover, ND's also in discussion with other major publishers and top-tier universities to enrich its platform.

**D/G to Outperform.** We tune down earnings forecasts from Rmb0.52 to Rmb0.31 in 2015E (-10.6% YoY) and from Rmb0.57 to Rmb0.37 in 2016E (+17.5%) to factor in higher spending on online education. It is likely to see upside potential on earnings forecast once large scale shipment of 101 Pad to commence since 3Q15. We maintain target price at HK\$17.1, consisting of HK\$8.9 for cash, HK\$3.2 for recurring business (representing 8x15PE) and HK\$5.0 for online education (ND has 77.96% stake in BAE and we give 15% discount to its A Series Funding valuation of US\$477.6mn); given the 8.5% upside potential, we downgrade from Buy to Outperform rating. The stock price has increased by 15% since our last recommendation on March 6, and we believe market has been gradually realizing company's large potentials from online education.

**Catalysts.** Strong shipment of *101pad* and positive development in its online education business.

**Risks.** Slower-than-expected *101pad* promotion and faster-than-expected slowdown in online client-based games.

## Appendix

**Fig 1: Consolidated income statement of NetDragon**

Rmbm	2012	2013	2014E	2015E	2016E
<b>Revenue</b>	826	885	963	1,107	1,566
<b>Cost of Sales</b>	(54)	(81)	(103)	(166)	(235)
<b>Gross Profit</b>	771	803	860	941	1,331
<b>Other Income</b>	49	45	157	120	120
Distribution expenses	(114)	(106)	(152)	(183)	(258)
Administrative expenses	(375)	(539)	(610)	(698)	(979)
Ebitda	367	272	288	286	358
EBIT	336	221	239	187	220
Finance Costs	1	0	(0)	5	4
<b>Profit before tax</b>	332	217	236	186	218
Income tax expense	(50)	(50)	(64)	(28)	(33)
Minority interests	(0)	2	(5)	0	0
<b>Profit for the year</b>	282	164	177	158	186

Source: Company reports, SWS Research

**Fig 2: Consolidated cash flow statement of NetDragon**

Rmbm	2012	2013	2014E	2015E	2016E
<b>Profit before taxation</b>	114	217	236	186	218
Plus: Depr. and amortization	31	50	19	64	99
Finance cost	28	5	3	1	2
Losses from investments	284	5	(7)	0	0
Change in working capital	(24)	(62)	(288)	31	30
Others	(9)	(5)	(28)	(4)	(6)
<b>CF from operating activities</b>	394	721	(248)	249	306
CAPEX	(179)	(306)	(249)	(251)	(352)
Other CF from investing activities	(576)	(2,614)	(37)	(27)	(27)
<b>CF from investing activities</b>	(724)	2,730	84	(221)	(302)
Equity financing	13	110	100	80	65
Net change in liabilities	184	(70)	0	0	0
Dividend and interest paid	(113)	(3,294)	(100)	(79)	(93)
Other CF from financing activities	(26)	27	(254)	45	(75)
<b>CF from financing activities</b>	46	(3,304)	(95)	(4)	(138)
<b>Net cash flow</b>	(285)	147	(258)	24	(135)
FCFF	215	(46)	(213)	59	30
FCFE	370	(120)	(217)	58	29

Source: Company reports, SWS Research

**Fig 3: Consolidated balance sheet of NetDragon**

Rmbm	2012	2013	2014E	2015E	2016E
<b>Current Assets</b>	1,883	4,603	3,760	3,873	3,921
Bank balances and cash	1,143	1,304	1,037	1,061	928
Trade and other receivables	137	112	270	279	363
Inventories	-	-	-	-	-
Other current assets	603	3,187	2,452	2,533	2,630
Long-term investment	35	6	34	36	39
PP&E	345	533	823	935	1,082
Intangible and other assets	183	230	578	595	820
<b>Total Assets</b>	2,423	5,442	5,180	5,361	5,784
<b>Current Liabilities</b>	513	827	612	680	863
Borrowings	-	-	-	-	-
Trade and other payables	294	693	349	410	579
Other current liabilities	219	134	262	270	284
Long-term liabilities	516	0	1	0	0
<b>Total Liabilities</b>	1,029	827	613	680	863
Minority Interests	22	8	50	70	75
<b>Shareholder Equity</b>	1,394	4,615	4,567	4,682	4,921
Share Capital	38	38	37	37	37
Reserves	1,356	4,577	4,530	4,645	4,884
Equity attributable	1,394	4,615	4,567	4,682	4,921
<b>Total Liabilities and equity</b>	2,423	5,442	5,180	5,361	5,784

Source: Company reports, SWS Research

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