



Rating  
**Hold**

Asia  
China

Technology  
Software & Services

Company  
**Baioo Alert**

Reuters  
2100.HK

Bloomberg  
2100 HK

Exchange  
HSI

Ticker  
2100

Date  
30 March 2015

Forecast Change

Price at 27 Mar 2015 (HKD)	0.99
Price target - 12mth (HKD)	0.91
52-week range (HKD)	1.77 - 0.60
HANG SENG INDEX	24,486

## Dividend declaration; new 2015 strategy

### 2H14 beats; special dividend

Baioo reported 2H14 revenue of RMB218m (-10% YoY/-24% QoQ), 7% higher than DBE. Non-GAAP operating income was RMB85m (-32% YoY/-46% QoQ), 20% higher than DBE. Non-GAAP net income was RMB97m (-32%YoY/-31%QoQ), 18% higher than DBE. Consensus consists of only one estimate. Average active accounts in 4Q14 declined to 44.5m (-37% QoQ); average paying accounts declined to 2.4m (-20% QoQ), and ARPU slipped to RMB36.2 (-3% QoQ), mainly related to the migration of users from role-play PC games to mobile. The co also sought to reduce duplicate accounts. Mgmt announced a special dividend of RMB0.028 per share to tap the co's rich operating cash flows. The company envisions a FY15 dividend, and share repurchase opportunities, based on Baioo's overall cash flow situation.

### 2015 strategies

Given challenges to the overall business, the co has changed its KPI's to focus on user experience and game performance instead of monetization. Mgmt seeks to shift its age target from 7-14 years old to an even lower age. The company will continue to push forward in its transition from PC to mobile. Wenta should remain a cost centre, requiring continued investment and effort in data and content collection and processing. The company intends to include 2-6 year old kids as target users of the platform, aiming to launch some new offerings in 2Q15 combining education and entertainment elements.

### Pipelines and new offerings

The company plans to launch 2-3 mobile game products in 2Q15. It should have extended existing virtual worlds to mobile by 3Q15. As part of its new strategy to enter into lower age groups, Baioo plans to offer a "sandbox game" on mobile targeting 1-1.5 year old kids. Its last PC game, "Te Zhan Ying Xiong", is in open testing and about to launch commercially soon. The company expects higher monetization potential from this game compared with other offerings, given its higher age targeting of 15-17 years old, and the fact that it is a first-person-shooting game.

### Lifting TP to HK\$0.91; Maintain Hold

We lift 2015/16E revenue forecasts by 2%/3%, and lift non-GAAP net profit by 1%/1% respectively, and launch a 2017 forecast. Given the high hit-or-miss risk of mobile game nature, we remain cautious on Baioo's new offerings. We therefore maintain Hold. Our TP is based on 9.8x FY15 P/E (vs [prior 8.7x], a 30% discount to a peer average of 14x (vs prior 12.4x) as of 30 March, 2015. Risks: stronger/weaker performance from existing games and new mobile offerings, better/poor monetization of Wenta.

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### Key changes

Price target	0.80 to 0.91	↑	13.7%
Sales (FYE)	477 to 487	↑	2.0%
Op prof margin (FYE)	33.4 to 33.3	↓	-0.6%
Net profit (FYE)	161.7 to 163.2	↑	0.9%

Source: Deutsche Bank

### Stock data

Market cap (HKDm)	2,796
Market cap (USDm)	361
Shares outstanding (m)	2,824.4
Major shareholders	-
Free float (%)	29
Avg daily value traded (USDm)	0.0

Source: Deutsche Bank

### Key data

FYE 12/31	2014A	2015E	2016E
Sales (CNYm)	506	487	500
Net Profit (CNYm)	-131.7	163.2	179.3
DB EPS (CNY)	0.09	0.07	0.08
PER (x)	9.7	10.7	9.9
Yield (net) (%)	6.8	0.0	0.0

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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