

2018年5月24日

增持
维持

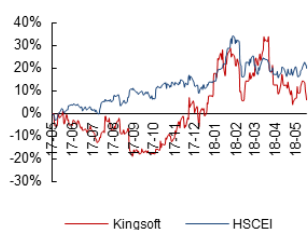
业绩低谷，下半年回暖

金山软件 (3888:HK)

Market Data: 23 May

Closing Price (HK\$)	23.1
Price Target (HK\$)	27.0
HSCEI	12090
HSCCI	4632
52-week High/Low (HK\$)	31.1/17.5
Market Cap (HK\$ bn)	31.7
Market Cap (US\$ bn)	4.1
Shares Outstanding (Mn)	1374
Exchange Rate (US\$-HK\$)	7.76

Price Performance Chart:



Source: Bloomberg

Analyst

Mae Huang

A0230517010002

BGT702

huangqian@swsresearch.com

"At the top of its game"

Kingsoft (3888:HK)

Published 22 March 2018

"Game changer"

Kingsoft (3888:HK)

Published 27 February 2018

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Financial summary and valuation

	2016	2017	2018E	2019E	2020E
Revenue (Rmbm)	3,834	5,181	6,424	7,926	9,029
YoY (%)	(32.5)	35.2	24.0	23.4	13.9
Net income (Rmbm)	-237	805	1,158	1,349	1,458
YoY (%)	(164.2)	(439.6)	43.8	16.5	8.1
EPS (Rmb)	(0.21)	0.62	0.84	0.98	1.06
Diluted EPS (Rmb)	(0.21)	0.61	0.84	0.98	1.06
ROE (%)	-2.60	6.90	7.74	7.97	7.88
Debt/asset (%)	43	29	26	25	26
Dividend yield (%)	0.3	0.3	0.5	0.5	0.6
PE (x)	(94.0)	31.8	23.4	20.1	18.6
PB (x)	3.2	2.2	1.9	1.6	1.5
EV/Ebitda (x)	388.5	18.3	14.5	10.7	8.7

Note: Diluted EPS is calculated as if all outstanding convertible securities, such as convertible preferred shares, convertible debentures, stock options and warrants, were exercised.

金山公布 2018 年第一季度收入为 13 亿元 (同比增长 4%)，净利润为 1.18 亿元 (同比下降 50%)，比市场和我们的预期要低。游戏收入同比下降 23%，主要是因为剑网 3 重置版低于预期。2018 年第一季度的各项费用占收入的比例同比有所提高，主要因为更高的研发游戏的固定成本和更高的人力成本。我们调低收入和利润的预期，因此把预期的稀释的 EPS 从 0.87 元人民币降低到 0.84 元人民币 (同比增长 38%)，预期 2019 年从 1.14 元人民币降低到 0.98 元人民币 (同比增长 16%)，预期 2020 年从 1.36 元人民币降低到 1.06 元人民币 (同比增长 8%)。我们将目标价从 32.7 港币降低到 27 港币。股价还有 17% 的上涨空间，我们维持增持评级。

二季度业绩依然有风险。我们注意到剑网 3 重置版 PC 端自去年 12 月推出以后并没有像预期一样表现良好，但是结果比市场预期还要低。由于 2018 年第一季度游戏收入只有 6.32 亿 (同比下降 23%)，我们估计剑网 3 重置版的收入在 2018 年第一季度只有 3.8 亿左右 (同比下降 17%)，剑网 3PC 端在二季度的收入可能会更低。由于新游多集中于 2018 年下半年，第二季度的利润率仍然会不太好看。我们预期在 2018 年二季度剑网 3PC 端和全部游戏的收入会环比下降，二季度运营利润率依然维持单位数百分比。

下半年憧憬丰富。2018 年下半年最受预期的两个催化剂分别是 WPS 上市和剑网 3 手游版的发布，这两个的推进都还没有延迟。云裳羽衣将会在六月底发布，剑网 2 手游版会在 2018 年第三季度发布。公司对于这三个游戏也有很高的期望，期待下半年的手游能把全年的营运利润率提高到超过 16%，比我们的预期要高一些。我们预期营运利润为 9.53 亿元人民币，全年的营运利润率为 14.3%。2018 年上半年营运利润率大概维持在 3-5%，而 2018 年下半年营运利润率需要达到 20% 才能实现公司全年的目标。

维持增持。除了新游发布时间的担心，我们更担心公司是否能够在 2018 年下半年达到盈利目标。这也取决于从今年 6 月起发布的三款主要的手游的月流水表现。我们的预期已经调低，比公司现在的目标要低一点。我们的预期的稀释 EPS 从 0.87 元人民币降低到 0.84 元人民币 (同比增长 38%)，预期 2019 年从 1.14 元人民币降低到 0.98 元人民币 (同比增长 16%)，预期 2020 年从 1.36 元人民币降低到 1.06 元人民币 (同比增长 8%)。我们把目标价从 32.7 港币调低到 27 港币，标价格相当于 28 倍 18 年 PE，2.2 倍 18 年 PB，23 倍 19 年 PE，和 1.8 倍 19 年 PB。股价仍有 17% 上升空间，我们维持增持评级。

Margin contraction

Kingsoft reported 1Q18 revenue of Rmb1.3bn (+4% YoY) and net profit of Rmb118m (-50% YoY), lower than market consensus and our expectation. Online gaming revenue declined 23% YoY, mainly due to the underperformance of the revamped version of *JX online III*. The firm's 1Q18 expense-to-revenue ratio increased YoY, driven by games' higher fixed costs and rising staff-related expenses. We lower our revenue and margin forecasts and, as a result, revise down our diluted EPS forecasts from Rmb0.87 to Rmb0.84 in 18E (+38% YoY), from Rmb1.14 to Rmb0.98 in 19E (+17% YoY), and from Rmb1.36 to Rmb1.06 in 20E (+8% YoY). We cut our target price from HK\$32.70 to HK\$27.00. With 17% upside, we maintain our Outperform recommendation.

Declining gaming revenue. We note the revamped version of *JX Online III* for PC, launched last December, did not perform as well as the market expected. Based on the firm's online gaming revenue of Rmb632m in 1Q18 (-23% YoY), we estimate the revamped version of *JX Online III* achieved sales of c.Rmb380m only in 1Q18 (-17% YoY), while expecting sales to decline QoQ in 2Q18E. As new games will only come online in 2H18, we expect the firm's margin to remain low in 2Q18E. We forecast sales of *JX Online III* for PC and total gaming revenue to decrease QoQ in 2Q18E, with single-digit operating margin.

More to expect in 2H18E. We see the ChiNext listings of office software *WPS* and *JX Online III* for mobile as catalysts in 2H18, both being on track. We note *Ysyy* is scheduled to be released in end-June, with *JX Online II* for mobile to be launched in 3Q18. Management expects these three games to drive up the company's full-year operating margin to 15%-plus in 2018, vs our forecast of 14.3%, representing Rmb953m in operating profit. 1Q18 expenses rose 27% YoY, but declined 2% QoQ. We expect the firm's operating margin to reach 3-5% in 1H18E. We highlight operating margin will need to reach c.20% in 2H18E for the company to achieve its full-year target.

Maintain Outperform. Given the timing of new game launches in 2018, we are cautious about the company's ability to achieve its margin guidance in the second half of the year. This will largely depend on the performance of the firm's three new major mobile games scheduled to be launched from June this year. We lower our revenue and margin forecasts and, as a result, revise down our diluted EPS forecasts from Rmb0.87 to Rmb0.84 in 18E (+38% YoY), from Rmb1.14 to Rmb0.98 in 19E (+17% YoY), and from Rmb1.36 to Rmb1.06 in 20E (+8% YoY). We cut our target price from HK\$32.70 to HK\$27.00, representing 28x 18E PE, 2.2x 18E PB, 23x 19E PE, and 1.8x 19E PB. With 17% upside, we maintain our Outperform recommendation.

Fig 1: SOTP valuation

(HK\$m)	Value to Kingsoft	Per share (HK\$)	Methodology
Gaming	14518	10.6	12x 18E PE, 95% equity stake assumed
Software	6002	4.4	Rmb8bn valuation, 61% equity stake
Cloud	8542	6.2	Recent round of financing, 52% equity stake
Cheetah	6556	4.8	Market cap, 47% equity stake
Other investments	1500	1.1	Mainly Xunlei and 21Vianet
SOTP value		27.0	

Source: SWS Research

Fig 2: Kingsoft's major games

Mobile Game	Terminal	Launch date	Type	Genre	Graphics style	Developer	Status
Three God of War	Mobile	3Q14	MMOG	RPG	3D	Licensed	Commercialised
Journey to the West: Conquering the Demons 3D	Mobile	3Q15	MMOG	Strategy	Card	in-house	Commercialised
National God	Mobile	4Q15	ACG	Board & Card		in-house	Commercialised
Lingyu	Mobile	2Q16	MMOG	RPG	3D	in-house	Commercialised
Three Kingdoms	Mobile	2Q16	MMOG	RPG	Card	in-house	Commercialised
JX Online I Mobile	Mobile	3Q16	MMOG	RPG		in-house	Commercialised
JX World Mobile	Mobile	3Q16	MMOG	RPG	3D	in-house	Commercialised
Girl Coffee Shoot	Mobile	4Q16	ACG	FPS		in-house	Commercialised
Princess Agents Mobile	Mobile	2Q17	MMOG	RPG	3D	Co-developed	Commercialised
The Ghouls	Mobile	3Q17	MMOG	RPG	3D	Co-developed	Commercialised
Eudemons Mobile	Mobile	4Q17	MMOG	RPG		Co-developed	Commercialised
Mi Shooting	Mobile	4Q17	MMOG	FPS		in-house	Commercialised
JX Online II Mobile	Mobile	3Q18E	MMOG	RPG		in-house	Under development
JX Online III Mobile	Mobile	4Q18E	MMOG	RPG		in-house	Under development
YSYY	Mobile	2Q18E	Strategy	Strategy		in-house	Under development
Genghis Khan Mobile	Mobile	TBC	MMOG	RPG	3D	Co-developed	Under development
JX World II Mobile	Mobile	1Q18	MMOG	RPG	3D	in-house	Commercialised

PC Game	Terminal	Launch date	Type	Genre	Graphics style	Developer	Status
JX Online I	Desktop PC	4Q03	MMOG	RPG	2D	in-house	Commercialised
The First Myth Online	Desktop PC	1Q05	MMOG	RPG	2D	in-house	Commercialised
JX Online II	Desktop PC	4Q05	MMOG	RPG	2D	in-house	Commercialised
The First Myth International	Desktop PC	2Q07	MMOG	RPG	2D	in-house	Commercialised
CQ	Desktop PC	3Q07	MMOG	RPG	2D	in-house	Commercialised
JX World Online	Desktop PC	4Q08	MMOG	RPG	2D	in-house	Commercialised
JX Online III	Desktop PC	3Q09	MMOG	RPG	3D	in-house	Commercialised
JX Online II Anecdotes	Desktop PC	3Q09	MMOG	RPG	2D	in-house	Commercialised
Moon Shadow Legend	Desktop PC	3Q12	MMOG	RPG	2.5D	in-house	Commercialised
Mission Against Terror	Desktop PC	1Q15	MMOG	First-person shooter (FPS)		in-house	Commercialised
New JX Online II	Desktop PC	4Q16	MMOG	RPG	2.5D	in-house	Commercialised
JX Online III revamped	Desktop PC	4Q17	MMOG	RPG	3D	in-house	Commercialised
Extopia	Desktop PC	TBC	MMOG	FPS		in-house	Under development
Hunting Legion	Desktop PC	TBC	MMOG	RPG	2.5D	in-house	Under development

Source: Kingsoft website, SWS Research

Appendix

Consolidated Income Statement

Rmbm	2016	2017	2018E	2019E	2020E
Revenue	3,834	5,181	6,424	7,926	9,029
Cost of Sales	-1,292	-2,169	-2,698	-3,329	-3,792
Gross Profit	2,541	3,012	3,726	4,597	5,237
Other Income	51	294	257	317	361
Distribution expenses	-323	-545	-674	-832	-948
Administrative expenses	-197	-257	-289	-357	-406
EBITDA	51	1,029	1,301	1,547	1,733
EBIT	26	1,025	1,301	1,547	1,733
Finance Costs	-107	-112	-56	-55	-76
Profit before tax	-82	912	1,245	1,493	1,656
Income tax expense	-177	-134	-187	-224	-248
Minority interests	-22	-22	-100	-80	-50
Profit attributable	-237	805	1,158	1,349	1,458

Source: SWS Research

Consolidated Cash Flow Statement

Rmbm	2016	2017	2018E	2019E	2020E
Profit before taxation	-96	3,432	1,245	1,493	1,656
Plus: Depr. and amortisation	451	468	332	349	362
Finance cost	-107	-112	-56	-55	-76
Losses from investments	1,160	2,185	-66	-83	-100
Change in working capital	-321	49	143	163	119
Others	307	-4,131	64	92	161
CF from operating activities	1,393	1,890	1,661	1,959	2,122
CAPEX	-683	-692	-400	-400	-400
Other CF from investing activities	-2,445	-3,416	0	0	0
CF from investing activities	-3,128	-4,108	-400	-400	-400
Equity financing	0	-10	0	0	0
Net change in liabilities	923	1,628	500	500	500
Dividend and interest paid	-169	-335	-29	-78	-129
Other CF from financing activities	-153	-1,549	0	0	0
CF from financing activities	601	-266	471	422	371
Net cash flow	-1,134	-2,484	1,732	1,981	2,093

Source: SWS Research

Consolidated Balance Sheet

Rmbm	2016	2017	2018E	2019E	2020E
Current Assets	13,105	10,545	12,720	15,236	17,723
Bank balances and cash	9,825	8,506	10,238	12,219	14,312
Trade and other receivables	2,896	1,847	2,290	2,826	3,219
Inventories	11	10	10	10	10
Other current assets	373	181	181	181	181
Long-term investment	572	4,056	4,122	4,205	4,305
PP&E	1,098	1,329	1,397	1,448	1,486
Intangible and other assets	2,804	1,833	1,833	1,833	1,833
Total Assets	17,579	17,762	20,072	22,722	25,346
Current Liabilities	3,731	3,854	3,919	5,116	6,127
Borrowings	380	374	686	1,185	1,684
Trade and other payables	2,684	1,792	2,229	2,750	3,133
Other current liabilities	667	1,688	1,004	1,181	1,311
Long-term liabilities	3,846	1,355	1,377	557	558
Total Liabilities	7,577	5,209	5,295	5,672	6,685
Minority Interests	2,115	464	364	284	234
Shareholder Equity	7,887	12,089	14,412	16,765	18,427
Share Capital	5	5	5	5	5
Reserves	7,835	12,098	14,422	16,775	18,437
Equity attributable	7,887	12,089	14,412	16,765	18,427
Total Liabilities and equity	17,579	17,762	20,072	22,722	25,346

Source: SWS Research

Key Financial Ratios

	2016	2017	2018E	2019E	2020E
Ratios per share (Rmb)					
Earnings per share	(0.21)	0.62	0.84	0.98	1.06
Diluted earnings per share	(0.21)	0.61	0.84	0.98	1.06
Operating CF per share	1.08	1.38	1.21	1.42	1.54
Dividend per share	0.09	0.09	0.13	0.15	0.16
Net assets per share	6.11	8.85	10.48	12.19	13.40
Key Operating Ratios (%)					
ROIC	0.60	6.17	7.14	7.42	7.45
ROE	(2.60)	6.90	7.74	7.97	7.88
Gross profit margin	66.29	58.14	58.00	58.00	58.00
Ebitda margin	1.32	19.86	20.25	19.52	19.19
Ebit margin	0.67	19.77	20.25	19.52	19.19
Growth rate of Revenue(YoY)	(32.46)	35.16	23.98	23.38	13.91
Growth rate of Profit(YoY)	(164.24)	(439.57)	43.79	16.47	8.09
Debt-to-asset ratio	43.10	29.33	26.38	24.96	26.37
Turnover rate of net assets	0.38	0.41	0.43	0.46	0.48
Turnover rate of total assets	0.22	0.29	0.32	0.35	0.36
Effective tax rate (%)	(217.22)	15.00	15.00	15.00	15.00
Dividend yield (%)	0.33	0.33	0.47	0.54	0.59
Valuation Ratios (x)					
P/E	(94.02)	31.84	23.41	20.13	18.62
P/B	3.23	2.23	1.88	1.62	1.47
EV/Sale	5.13	3.63	2.93	2.09	1.66
EV/Ebitda	388.51	18.26	14.50	10.72	8.66

Source: SWS Research

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