

Analyst: Kelvin Li
Main Board Listing – Research

聯眾國際控股有限公司

Ourgame International Holdings Limited (06899)

Sole Sponsor	:	Jefferies
Joint Global Coordinators, Joint Bookrunners & Joint Lead Managers	:	Jefferies CICC

Sector : Software and Services

Business : Distribution of PC and mobile online games

<p>Total share offer: <u>196,000,000</u> shares (25% of the enlarged share capital)</p> <p>Public Offer: 19,600,000 shares (10%)</p> <p>Placing: 176,400,000 shares (90%)</p> <p>Greenshoe: 29,400,000 shares</p> <hr/> <p>Price: HK\$3.70 – HK\$4.80 per share</p> <p>Total Market Capitalisation: HK\$2,900.8 million – HK\$3,763.2 million</p> <p>Pro-forma fully diluted FY2013 P/E: 66x-86x</p> <p>Adjusted NTA per share: HK\$1.06 – HK\$1.32</p> <p>Staffing: 502 (as of 31st March 2014)</p> <hr/> <p>HK Public Offer period: 18th June 2014 – 23rd June 2014 noon</p> <p>Receiving bank: Wing Lung Bank</p> <p>Share registrar: Computershare Hong Kong Investor Services</p> <p>Listing date: 30th June 2014</p>	<p><u>Business of Ourgame ('The Group')</u></p> <p>The Group operates an integrated online game platform, offering both PC and mobile games through multiple distribution channels.</p> <p>The Group's proprietary one-stop PC client portal, <i>Ourgame Hall</i> (聯眾大廳), offers over 200 games, including about 40 types of card games, over 25 Mahjong games, 20 board games, over 10 licensed and third-party operated MMOGs (massively multiplayer online games) and a number of other causal games. Customers could also play the Group's web-games on its own websites, ourgame.com and lianzhong.com, and through about 30 third-party distributors like Baidu, Sina Weibo and Qihoo 360. The Group's flagship games included <i>Tiantian Fight the Landlord</i> (天天鬥地主) and <i>Poker World</i>.</p> <p>To promote its online card and board games, the Group has held Texas Hold'em tournament in Sanya Hainan (三亞 海南) annually since 2012 and has signed agreement with the Sanya government to hold the annual event till 2017.</p>
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Shareholders after Listing (assuming the Over-allotment Option is not exercised)

• Elite Vessels Ltd. – wholly owned by Mr. Zhang Rongming* (executive Director)	15.11%
• Sonic Force Ltd. – wholly owned by Mr. Liu Jiang* (executive Director)	13.49%
• Blink Milestones Ltd. – wholly owned by Mr. Liu Jiang* (executive Director)	6.53%
• Prosper Macrocosm Ltd. – wholly owned by Mr. Shen Dongri* (one of the Group's founders)	8.09%
• Iconic Ocean Ltd. – wholly owned by Mr. Bao Yueqiao (one of the Group's founders)	3.83%
• Golden Liberator Ltd. – wholly owned by Ms. Long Qi* (one of the Group's founders)	2.70%
• Celestial Radiant Ltd. – wholly owned by Ms. Wu Lan (one of the Group's founders)	2.75%
• KongZhong Corporation (NASDAQ-listed) (pre-IPO investor)	7.50%
• CMC Ace (controlled by private equity fund CMC Capital Partners) (pre-IPO investor)	15.00%
• Public shareholders	25.00%
	100.00%

Remark: (*) the parties will vote unanimously for any resolution proposed at Board and shareholders' meetings.

Use of Proceeds

Net proceeds from the offer are estimated to be HK\$759.9 million (based on an offer price of HK\$4.25).

	HK\$ million
To expand online game portfolio	228
To buy intellectual property rights and distribution licenses of complementary games	152
For sales and marketing	190
To acquire or invest in game developers	114
For general working capital	76

Financial Highlights

	Year ended 31 st Dec			3 months ended	
	2011	2012	2013	31 st Mar 2013	31 st Mar 2014
	RMB million	RMB million	RMB million	RMB million	RMB million
Revenue	153.9	205.8	236.3	46.2	93.0
Gross profit	107.4	150.5	156.5	31.7	61.9
Operating profit	31.2	37.2	44.8	2.2	24.9
Profit attributable to shareholders	21.0	29.3	35.1	1.6	21.6
Gross profit margin	69.8%	73.1%	66.2%	68.6%	66.6%
Operating profit margin	20.2%	18.1%	18.9%	4.7%	26.8%
Net profit margin	13.6%	14.2%	14.8%	3.5%	23.2%
	31/12/2011	31/12/2012	31/12/2013	31/3/2013	31/3/2014
Net debt to shareholders' equity ratio	Net cash	Net cash	Net cash	N/A	Net cash

Breakdown of revenue in terms of business segments

(RMB million)	FY2011		FY2012		FY2013		3M2013		3M2014	
Self-developed games	90.8	59.0%	144.6	70.3%	189.4	80.2%	35.3	76.3%	78.7	84.7%
Licensed games	20.3	13.2%	20.8	10.1%	22.3	9.4%	5.1	11.0%	6.5	7.0%
Third-party operated games	40.8	26.5%	33.2	16.2%	14.6	6.2%	4.7	10.2%	6.8	7.3%
Others	2.1	1.4%	7.1	3.5%	10.0	4.2%	1.2	2.5%	0.9	1.0%
Total	153.9	100.0%	205.8	100.0%	236.3	100.0%	46.2	100.0%	93.0	100.0%

**Peer valuation comparison**

	Ourgame (06899)		Boyaa Interactive (00434)		IGG (08002)	
	FY2013	FY2014E	FY2013	FY2014E	FY2013	FY2014E
Gross profit margin	66.2%	N/A	61.1%	61.0%	74.7%	81.4%
P/E ratio	66x-86x	N/A	37.7x	23.0x	32.5x	10.9x
Market capitalisation	HK\$2,901-3,763 million		HK\$6,400 million		HK\$7,404 million	

Sources: Reuters

Strengths/Opportunities

- ✓ The Group ranked the third largest PRC online card and board game provider in terms revenue in 2013 and the second largest in terms of the number of online card and board games offered as of the end of 2013.
- ✓ The Group's "Lianzhong" (聯眾) brand is well-recognized by customers in China and regarded as one of the leading providers of online card and board games.
- ✓ The Group recorded strong growth in its mobile game operation during the first quarter of 2014. For Q1 2014, the average MAUs (monthly active users) of the Group's top three mobile games amounted to 14.1 million, up strongly by 78% from the average MAUs of 7.9 million in the whole year of 2013.
- ✓ The Group registered strong revenue of 101% and stunning bottom-line growth of 12-folds y-o-y in the first three months of 2014, as the Group introduced more self-developed games during the period.
- ✓ The Group has entered into cornerstone placement agreement with People Okooo Media Technology, which will invest US\$5 million into the Group's IPO. The cornerstone subscription will account for 1.16% of the Group's enlarged share capital or 4.65% of the shares under Global Offering, assuming an issue price at HK\$4.25. People Okooo is one of the largest online lottery operators in China, which is controlled by *People's Daily*.
- ✓ There was a number of online/mobile game operators listed on HKEx over the past years. The IPO candidates showed mixed performances, which have registered decline of over 40% to gains above 90% so far since their respective listing.

Weaknesses/Threats

- × Expansion in the Group's PC game operation was sluggish during the first quarter of 2014. The Group's average MAUs (monthly active users) for its PC games amounted to only 9.8 million in Q1 2014, down from the average of 9.9 million in the full year of 2013.
- × The pre-IPO investors CMC Ace Holdings and KongZhong Corporation invested a combined US\$49 million into the Group with a deep discount of 49% (assuming an IPO issue price of HK\$4.25) in February 2014. The investors are expected to sit with a hefty paper gain on their pre-IPO investments upon Listing and may dispose of the shares when their lock-up restriction expires by end of October 2014.
- × In terms of 2013 P/E, the Group is to be priced at a big premium to its peers. Without any significant competitive edge against its rivals, the counter does not look attractive.

Recommendation: Unattractive

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