

Razer Inc. (1337 HK)

Core business continued its strong growth in 1H21

Razer announced 1H21 results with record-high revenue of US\$752mn with 68% YoY growth, while GPM improved to 27.1% (vs. 22.3% for FY20). The revenue growth was driven by robust demand, market share leadership for the hardware business, and ongoing growth in the Services segment. Looking forward, we think Razer will continue its momentum and strengthen its profitability. **Maintain BUY rating but lowered our TP to HK\$3.00 to reflect recent valuation compression in gaming hardware segment.**

- Razer to continue growth momentum, with less seasonality this year.** 1H21 revenue growth of 68% YoY is largely driven by growth in peripherals (104% YoY). Meanwhile, GPM of hardware (peripherals/system) recovered to 25.4% in 1H21 from 20.2% in FY20, higher than our/consensus estimates due to 1) less subsidization in channel expansion compared with previous years and 2) higher GPM of new products. Looking forward, we expect 2H21 will keep its momentum since back-to-school and holiday season is coming. However, seasonality will be less obvious, given a strong 1H21 performance.
- Razer to focus on its B2B business, with new investment plan in merchant acquisition and talents hire.** Razer recently suspended its toC e-wallet business (Razer pay), due to its little contribution in the past years but large capital requirement to gain market share. Looking forward, the Company will focus more on its B2B payment gateway business and plans to invest ~US\$30mn starting from 2H21 to strengthen its payment gateway infrastructure, merchant base, etc. This strategy change will put pressure on NPM in near term but we expect it will boost topline growth, given that 1) the pandemic has a longer impact and 2) online shopping activities will continue increase in SEA.
- Maintain BUY rating with new TP of HK\$3.00 (62% upside).** We derive our TP of HK\$3.00 based on lower 21x/9x (vs. previous 26x/10x) FY22E P/E for peripherals and system segments and the same 1x FY22E P/S for services business, given recent peers' valuation compression. We are positive on the Company's continuous improvement in profitability. Potential risks include 1) macro economy uncertainty; 2) quicker-than-expected control of virus in SEA; 3) intense competition in hardware business.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (US\$ mn)	820.8	1,214.6	1,576.8	1,964.8	2,312.4
YoY growth (%)	15.2%	48.0%	29.8%	24.6%	17.7%
Gross profit (US\$ mn)	168.1	271.0	427.5	549.8	664.1
Gross margin (%)	20.5%	22.3%	27.1%	28.0%	28.7%
EBITDA (US\$ mn)	-29.4	44.6	115.0	181.9	237.5
Net profit (US\$ mn)	-84.2	5.6	56.4	108.9	152.1
Net profit margin (%)	-10.3%	0.5%	3.6%	5.5%	6.6%
EPS (US\$)	-0.010	0.001	0.006	0.012	0.017
Consensus EPS (US\$)	-	-	0.007	0.012	0.015
PE (x)	-	373.4	37.1	19.3	13.9
EV/EBITDA(x)	-59.6	39.3	15.2	9.6	7.4
ROE (%)	-14.6%	0.9%	8.7%	14.3%	16.4%
Net debt/total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **HK\$ 3.00**
 (Previous TP **HK\$ 3.22**)
 Up/Downside **+62%**
 Current Price **HK\$ 1.85**

China Technology Sector

Lily Yang
 (852) 3916 3716
 lilyyang@cmbi.com.hk

Alex Ng
 (852) 3900 0881
 alexng@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	16,317
Avg 3 mths t/o (HK\$ mn)	54
52w High/Low (HK\$)	3.36/1.42
Total Issued Shares (mn)	8,820.1

Source: Bloomberg

Shareholding Structure

Chen Family Hivemind Holdings	32.18%
Voyager Equity	15.22%
Lim Teck Lee Land Pte	3.75%

Source: Company data

Share Performance

	Absolute	Relative
1-mth	-5.5%	-0.5%
3-mth	-27.0%	-17.9%
6-mth	-30.8%	-19.0%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

1H21 Results Review/ Earnings Revision

Figure 1: 1H21 results review

US\$m	1H19	2H19	1H20	2H20	1H21	HoH	YoY
Revenue	357	464	448	767	752	-2.0%	68%
Gross profit	76	92	99	172	204	18.0%	107%
EBITDA	-21	-9	3	41	59	43.7%	1769%
Net profit	(48)	(36)	(17)	23	34	47.9%	NA
EPS (RMB)	-0.0055	-0.0042	-0.0020	0.0026	0.0039	48.5%	NA
Gross Margin	21.2%	19.9%	22.0%	22.5%	27.1%	4.6 ppt	5.1 ppt
EBITDA Margin	-5.8%	-1.9%	0.7%	5.4%	7.9%	2.5 ppt	7.2 ppt
Net Margin	-13.5%	-7.8%	-3.9%	3.0%	4.5%	1.5 ppt	8.4 ppt

Source: Bloomberg, CMBIS estimates

Figure 2: CMBIS earnings revisions

US\$m	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	1,577	1,965	2,312	1,552	1,913	2,306	2%	3%	0%
Gross profit	427	550	664	396	503	626	8%	9%	6%
EBITDA	115	182	238	104	180	236	11%	1%	1%
Net profit	56	109	152	60	117	161	-6%	-7%	-5%
EPS (RMB)	0.01	0.01	0.02	0.01	0.01	0.02	-5%	-7%	-5%
Gross Margin	27.1%	28.0%	28.7%	25.5%	26.3%	27.1%	1.6 ppt	1.7 ppt	1.6 ppt
EBITDA Margin	7.3%	9.3%	10.3%	6.7%	9.4%	10.2%	0.6 ppt	-0.1 ppt	0 ppt
Net Margin	3.6%	5.5%	6.6%	3.9%	6.1%	7.0%	-0.3 ppt	-0.6 ppt	-0.4 ppt

Source: Company data, CMBIS estimates

Figure 3: CMBIS estimates vs consensus

US\$m	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	1,577	1,965	2,312	1,480	1,748	2,092	7%	12%	11%
Gross profit	427	550	664	374	459	569	14%	20%	17%
EBITDA	115	182	238	84	139	209	36%	30%	14%
Net profit	56	109	152	56	95	140	1%	14%	9%
EPS (RMB)	0.006	0.012	0.017	0.007	0.012	0.015	-12%	6%	12%
Gross Margin	27.1%	28.0%	28.7%	25.3%	26.3%	27.2%	1.9 ppt	1.7 ppt	1.5 ppt
EBITDA Margin	7.3%	9.3%	10.3%	5.7%	8.0%	10.0%	1.6 ppt	1.3 ppt	0.3 ppt
Net Margin	3.6%	5.5%	6.6%	3.8%	5.5%	6.7%	-0.2 ppt	0.1 ppt	-0.1 ppt

Source: Bloomberg, CMBIS estimates

Figure 4: Major assumptions

US\$ mn	FY19	FY20	1H21	2H21E	FY21E	FY22E	FY23E
Peripherals	445	773	516	567	1,083	1,407	1,689
...YoY	4%	74%	104%	9%	40%	30%	20%
Systems	269	310	162	180	342	376	413
...YoY	45%	15%	24%	0%	10%	10%	10%
Services	77	128	73	78	151	182	210
...YoY	55%	67%	14%	21%	18%	21%	16%
Others	30	2	2	0	2	0	0
...YoY	-37%	-92%	-	-	-	-	-
Total	821	1,215	752	825	1,577	1,965	2,312
...YoY	15%	48%	68%	8%	30%	25%	18%
Gross Margin							
Peripherals	26.4%	26.9%	31.4%	32.2%	31.8%	32.0%	32.5%
Systems	9.8%	3.3%	6.3%	6.7%	6.5%	7.0%	7.5%
Services	42.4%	43.8%	41.9%	39.2%	40.5%	40.3%	40.1%
Others	-28.6%	-153.7%	48.5%	-	-	-	-
Total	20.5%	22.3%	27.1%	27.1%	27.1%	28.0%	28.7%

Source: Company data, CMBIS estimates

Figure 5: P&L forecast

US\$ mn	FY19	FY20	1H21	2H21E	FY21E	FY22E	FY23E
Revenue	821	1,215	752	825	1,577	1,965	2,312
...YoY	15.2%	48.0%	68.0%	7.5%	29.8%	24.6%	17.7%
Gross profit	168	271	204	224	427	550	664
GPM (%)	20.5%	22.3%	27.1%	27.1%	27.1%	28.0%	28.7%
SG&A	(202)	(213)	(133)	(167)	(300)	(345)	(393)
...% of rev	-24.6%	-17.5%	-17.7%	-20.2%	-19.0%	-17.5%	-17.0%
R&D	(52)	(54)	(31)	(32)	(63)	(77)	(90)
...% of rev	-6.4%	-4.4%	-4.1%	-3.9%	-4.0%	-3.9%	-3.9%
Operating profit	(96)	(7)	40	25	65	128	181
OPM (%)	-11.7%	-0.6%	5.3%	3.0%	4.1%	6.5%	7.8%
...YoY	-3.8%	-92.7%	-335.2%	148.6%	-1029.3%	98.1%	40.8%
Net profit	(84)	6	34	22	56	109	152
NPM (%)	-10.3%	0.5%	4.5%	2.7%	3.6%	5.5%	6.6%
...YoY	-13.2%	-106.7%	-295.9%	-2.5%	902.0%	93.2%	39.6%

Source: Company data, CMBIS estimates

Valuation

Maintain with BUY rating with TP of HK\$ 3.00 (62% upside)

We estimate 21% revenue CAGR, 25% gross profit CAGR and 64% EPS CAGR during FY21-23E. We lowered our estimates for FY21/22E net margin due to Razer's recent investment plan to strengthen its B2B payment gateway business (increasing SG&A expenses). **We think Razer's core hardware business will continue to have strong momentum and expect the new investment plan to strengthen its payment gateway business in SEA. Maintain BUY.**

We consider valuation for Razer using Sum-of-the-Parts ("SOTP") methodology. We derive our TP of HK\$3.00 based on lower valuation of 21x/9x (vs. previous 26x/10x) FY22E P/E for peripherals and system segments and the same 1x FY22E P/S for services business. **The cut in valuation is mainly due to the recent peers' valuation compression.**

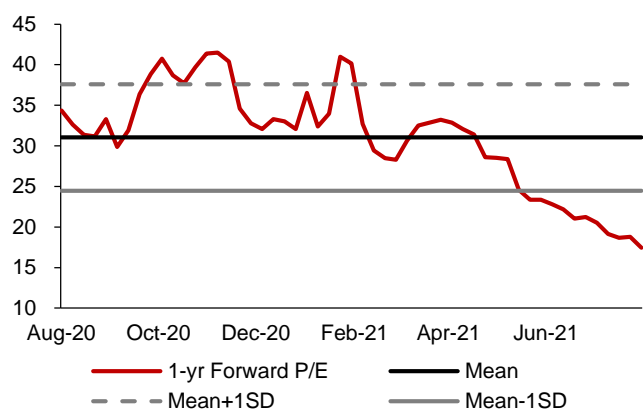
Potential risks include 1) macro economy uncertainty; 2) quicker-than-expected control of virus in SEA; 3) intense competition in hardware business.

Figure 6: SOTP valuation

Segment	Est. Sales 2022E (US\$)	Sales 2022E breakdown (%)	Est. net income 2022E (US\$)	Net income 2022E breakdown (%)	Methodology	Multiple (x)	Segment Valuation US\$ (mn)
SOTP method							
Peripherals	1,407	71.6%	149	81.9%	P/E	21x	3,158
System	376	19.1%	9	4.8%	P/E	9x	78
Service	182	9.3%	24	13.3%	P/S	1x	182
Total (US\$ mn)	1,965	100.0%	182	100.0%			3,418
FX (USD/HKD)							7.75
Total (HK\$ mn)							26,489
Shares O/S							8,824
TP (HK\$)							3.00

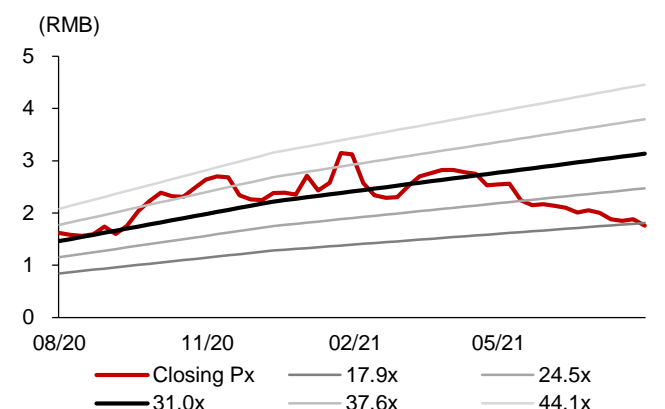
Source: Company data, CMBIS estimates

Figure 7: 12M forward P/E chart



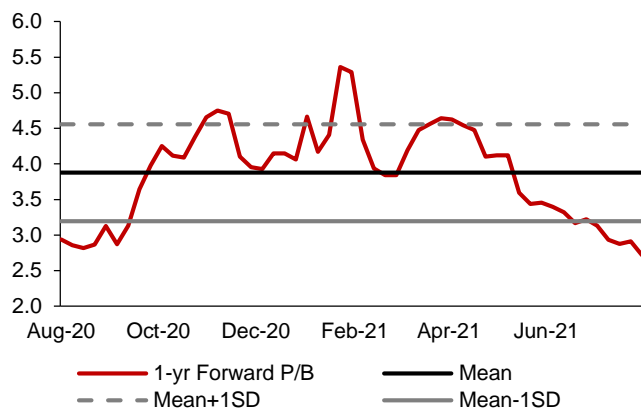
Source: Company data, Bloomberg, CMBIS estimates

Figure 8: 12M forward P/E band



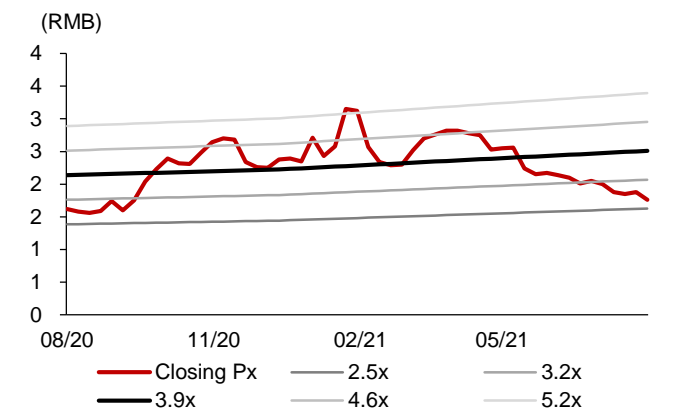
Source: Company data, Bloomberg, CMBIS estimates

Figure 9: 12M forward P/B chart



Source: Company data, Bloomberg, CMBIS estimates

Figure 10: 12M forward P/B band



Source: Company data, Bloomberg, CMBIS estimates

Figure 11: Peers valuation

Company	Ticker	Mkt Cap US\$(mn)	Price (LC)	P/S (x)		P/E (x)		P/B (x)		ROE (%)	
				FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Peripherals											
Razer	1337 HK	2,095	1.85	1.3	1.1	37.1	19.3	3.3	2.9	8.7	14.3
Logitech	LOGI US	18,159	104.90	3.7	3.4	18.0	23.2	7.9	6.7	52.1	30.1
Corsair	CRSR US	2,562	27.31	1.3	1.2	15.3	14.3	5.7	4.5	41.1	40.5
Turtle Beach	HEAR US	444	27.63	1.2	1.1	18.0	15.9	-	-	15.0	-
Peers Avg.				2.0	1.9	17.1	17.8	6.8	5.6	36.1	35.3
Peers Median				1.3	1.2	18.0	15.9	6.8	5.6	41.1	35.3
System											
Razer	1337 HK	2,095	1.85	1.3	1.1	37.1	19.3	3.3	2.9	8.7	14.3
Micro-star	2377 TT	3,858	127.50	0.6	0.6	6.7	7.8	2.4	2.2	39.5	29.6
Dell	DELL US	77,942	102.06	0.8	0.8	13.7	12.0	19.1	10.2	1076.2	105.2
HP	HPQ US	35,305	29.39	0.6	0.6	8.4	8.2	-	-	39.3	-29.5
Lenovo	992 HK	12,170	7.87	0.2	0.2	10.8	7.7	2.8	2.4	30.7	38.5
Asustek	2357 TT	8,486	319.00	0.5	0.5	6.1	8.2	1.1	1.0	18.2	13.3
Acer	2353 TT	2,715	24.65	0.2	0.2	7.2	9.2	1.1	1.1	15.2	11.8
Apple	AAPL US	2,452,415	148.36	6.7	6.4	26.6	26.2	40.4	35.7	142.2	139.3
Peers Avg.				1.4	1.3	11.4	11.3	11.2	8.8	194.5	44.0
Peers Median				0.6	0.6	8.4	8.2	2.6	2.3	39.3	29.6
Services											
Razer	1337 HK	2,095	1.85	1.3	1.1	37.1	19.3	3.3	2.9	8.7	14.3
Adyen	ADYEN NA	172,179	320.09	18.5	12.4	-	-	83.2	107.8	-58.0	-35.4
Paypal	PYPL US	2,452,415	148.36	6.7	6.4	26.6	26.2	40.4	35.7	142.2	139.3
Square	SQ US	1,900,611	2859.00	9.2	7.9	24.0	22.0	7.6	6.2	28.1	25.3
Affirm	AFRM US	459,644	169.10	4.2	3.2	16.7	19.2	3.0	3.0	19.0	13.8
GHL	GHLS MK	581,671	471.80	6.5	5.4	27.8	22.8	4.5	3.8	18.1	17.2
Yeahka	9923 HK	2,095	1.85	1.3	1.1	37.1	19.3	3.3	2.9	8.7	14.3
Lakala	300773 CH	172,179	320.09	18.5	12.4	-	-	83.2	107.8	-58.0	-35.4
Peers Avg.				9.0	7.1	23.8	22.6	27.7	31.3	29.9	32.0
Peers Median				6.7	6.4	25.3	22.4	7.6	6.2	19.0	17.2
Ecosystem											
Razer	1337 HK	2,095	1.85	1.3	1.1	37.1	19.3	3.3	2.9	8.7	14.3
Sea	SE US	96,036	2681.50	83.9	60.9	184.0	129.9	50.1	36.2	29.8	30.1
Apple	AAPL US	326,295	277.69	12.7	10.3	58.8	47.1	13.6	10.5	23.4	23.9
Google	GOOG US	123,001	267.57	6.5	5.6	144.9	117.4	34.2	29.0	28.5	20.4
Alibaba	BABA US	19,275	72.71	23.1	16.8	-	-	6.0	10.1	-25.5	-11.1
Tencent	700 HK	539	1.98	5.9	4.9	63.9	44.0	4.0	3.7	6.7	8.8
Peers Avg.				19.9	14.9	83.3	63.0	16.5	13.7	13.8	15.4
Peers Median				6.5	5.6	61.4	45.5	6.0	10.1	20.2	20.4

Source: Bloomberg and CMBIS, as of 26 Aug 2021.

Financial Summary

Income statement

YE 31 Dec (US\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec (US\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	821	1,215	1,577	1,965	2,312	Net profit	-83	1	68	139	193
COGS	-653	-944	-1,149	-1,415	-1,648	D&A	24	23	17	21	24
Gross Profit	168	271	427	550	664	SBC expense	30	16	33	33	33
SG&A	-202	-213	-300	-345	-393	Change in working capital	-8	90	-34	100	-46
R&D expense	-52	-54	-63	-77	-90	Others	-1	24	-9	-20	-33
Other opex	-10	-11	0	0	0	Net cash from operating	-38	153	75	272	171
Operating profit	-96	-7	65	128	181	Capex	-33	-39	-45	0	0
Other non-operating exp.	6	4	-1	6	7	Other	23	-131	-18	-63	-58
Interest income	13	9	4	4	5	Net cash from investing	-10	-171	-63	-63	-58
Finance costs	-1	-1	-1	-2	-2	Share	-32	-13	-46	-31	-20
Pre-tax profit	-78	4	67	138	192	Dividend paid	-0	-0	0	0	0
Income tax expenses	-6	-4	-13	-28	-38	Other	-6	11	-6	-8	-8
Net profit	-83	1	54	110	154	Net cash from financing	-38	-3	-51	-39	-28
Non-controlling interests	1	-5	-3	1	2	Net change in cash	-86	-21	-39	171	85
Net profit to shareholders	-84	6	56	109	152	Cash, beginning	615	528	509	470	640
Adj. EBITDA	-29	45	115	182	238	Exchange difference	-1	1	0	0	0
						Cash, end	528	509	470	640	726

Cash flow summary

Balance sheet

YE 31 Dec (US\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec (US\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Current assets	848	1,043	1,014	1,276	1,413	Revenue by segment					
Cash & equivalents	528	509	470	640	726	Peripherals	445	773	1,083	1,407	1,689
Trade & other receivables	215	268	253	315	347	Systems	269	310	342	376	413
Inventories	75	125	146	172	189	Software/Services/Fintec	77	128	151	182	210
Other current assets	30	141	145	149	151	Others	30	2	2	0	0
Non-current assets	147	200	267	318	359	Total	821	1,215	1,577	1,965	2,312
PPE	30	30	51	75	101	Growth (%)					
Intangibles & GW	105	91	84	81	78	Revenue	15.2%	48.0%	29.8%	24.6%	17.7%
Other non-current assets	12	79	131	163	180	Adj. EBITDA	62.7%	-151.6%	257.9%	158.2%	130.6%
Total assets	995	1,243	1,281	1,594	1,772	Net profit	-13.2%	-106.7%	902.0%	93.2%	39.6%
Current liabilities	402	621	598	799	808	Profit & loss ratio (%)					
Trade & other payables	378	584	562	756	761	Gross margin	20.5%	22.3%	27.1%	28.0%	28.7%
Customer funds	13	20	20	24	27	EBITDA margin	-3.6%	3.7%	7.3%	9.3%	10.3%
Other current liabilities	11	16	16	18	20	Net profit margin	-10.3%	0.5%	3.6%	5.5%	6.6%
Non-current liabilities	18	15	34	33	35	Balance sheet ratio					
Lease liabilities	10	7	24	23	22	Net debt/total equity (%)	-91.9%	-83.8%	-57.3%	-67.3%	-61.2%
Other non-current liabilities	8	8	11	10	13	Cash conversion cycle (days)	-76.3	-75.5	-79.4	-76.7	-76.1
Total liabilities	420	636	632	832	843	Profitability (%)					
Total equity	575	607	649	762	929	ROE	-14.6%	0.9%	8.7%	14.3%	16.4%
Share capital	89	89	89	90	92	ROA	-8.5%	0.5%	4.8%	7.5%	9.6%
Share premium	684	673	626	594	572	Per share data (RMB)					
Reserves	-205	-179	-90	52	237	EPS	-0.010	0.001	0.006	0.012	0.017
Minority interests	7	25	23	25	27	DPS	0.066	0.066	0.071	0.083	0.101
Total liabilities and equity	995	1,243	1,281	1,594	1,772						

Source: Company data, CMBIS estimates

Disclosures & Disclaimers

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BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIS

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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