

Razer (1337 HK)

Proposed privatization update

On 21 Feb 2022, Razer announced that the Pre-Condition of the proposed privatization has been fulfilled. As such, the implementation of the Proposal is now only subject to satisfaction of the Conditions. We think the completion of the deal is highly possible, considering the current macro environment and weaker expectations for peripheral market, component shortage, high freight costs and peers low valuation. We adjusted TP to the proposed privatization price of HK\$2.82. Downgrade to HOLD due to limited upside (11% upside).

- **On 21 Feb 2022, Razer announced that the Pre-Condition of the proposed privatization has been fulfilled:** 1) Razer has obtained approvals from relevant authorities, such as China, Cyprus, Denmark and Germany, Bulgaria, Poland and Romania; and 2) the company has received no objection from U.S. when the waiting period expired. As such, the implementation of the Proposal is now only subject to satisfaction of the Conditions.
- **We think the completion of the deal is highly possible.** The next milestone for Razer is to win the shareholders' vote. Given 1) the tough macro environment and weaker market expectation of peripheral spending post-pandemic, 2) potential ongoing component shortage, 3) high freight costs and 4) the recent decline of peers' valuation, we think the completion of the deal is highly possible.
- **TP adjusted to the proposed privatization price of HK\$2.82; Downgrade to HOLD (11% upside).** Given the completion of the deal is highly possible, we adjust our TP to HK\$2.82 to reflect the proposed acquisition price. The offerer will not increase the acquisition price according to the previous announcement. Given that the current price of HK\$2.54 only offers 11% upside, we cut the rating to HOLD. Potential risk includes failure of the privatization deal.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (US\$ mn)	820.8	1,214.6	1,576.8	1,947.0	2,254.9
YoY growth (%)	15.2%	48.0%	29.8%	23.5%	15.8%
Gross margin (%)	20.5%	22.3%	25.2%	27.5%	28.0%
EBITDA (US\$ mn)	-71.7	16.1	74.5	139.8	188.2
Net profit (US\$ mn)	-84.2	5.6	50.4	99.9	138.6
Net profit margin (%)	-10.3%	0.5%	3.2%	5.1%	6.1%
EPS (US\$)	-0.010	0.001	0.006	0.011	0.016
Consensus EPS (US\$)	-	-	0.007	0.011	0.015
PE (x)	-	509.4	56.8	28.8	20.8
EV/EBITDA(x)	-37.9	168.6	36.5	19.4	14.4
ROE (%)	-14.6%	0.9%	8.0%	13.7%	15.8%
Net debt/total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

HOLD (Down)

Target Price	HK\$2.82
(Previous TP)	HK\$3.56)
Up/Downside	+11.0%
Current Price	HK\$2.54

China Technology Sector

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Stock Data

Mkt Cap (HK\$ mn)	22,250
Avg 3 mths t/o (HK\$ mn)	58
52w High/Low (HK\$)	3.19/1.5
Total Issued Shares (mn)	8,759.8

Source: Bloomberg

Shareholding Structure

Chen Family Hivemind Holdings	32.4%
Voyager Equity	15.33%
Primerose Ventures	3.77%

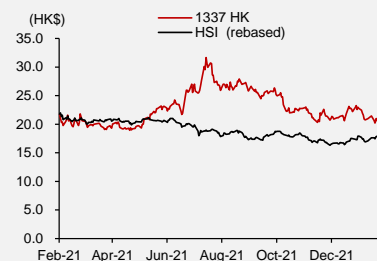
Source: Company data

Share Performance

	Absolute	Relative
1-mth	6.4%	9.1%
3-mth	-11.7%	-9.0%
6-mth	42.0%	45.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

Financial Summary

Income statement

YE 31 Dec (US\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	821	1,215	1,577	1,947	2,255
COGS	-653	-944	-1,179	-1,412	-1,623
Gross Profit	168	271	398	535	632
SG&A	-202	-213	-281	-343	-388
R&D expense	-52	-54	-66	-82	-90
Other opex	-10	-11	0	0	0
Operating profit	-96	-7	51	111	154
Other non-operating exp.	6	4	2	4	7
Interest income	13	9	5	6	7
Finance costs	-1	-1	-1	-2	-2
Pre-tax profit	-78	4	57	119	166
Income tax expenses	-6	-4	-9	-18	-25
Net profit	-83	1	48	101	141
Non-controlling interests	1	-5	-2	2	2
Net profit to shareholders	-84	6	50	100	139
EBITDA	-72	16	75	140	188

Cash flow summary

YE 31 Dec (US\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net profit	-83	1	57	119	166
D&A	24	23	23	29	35
SBC expense	30	16	17	33	27
Change in working capital	-8	90	39	-5	34
Others	-1	24	-2	-14	-17
Net cash from operating	-38	153	134	163	245
Capex	-13	-37	-44	-51	0
Other	3	-134	-25	1	-63
Net cash from investing	-10	-171	-69	-50	-63
Share	-32	-13	-46	-31	-20
Dividend paid	-0	-0	0	0	0
Other	-6	11	-6	-8	-8
Net cash from financing	-38	-3	-52	-39	-28
Net change in cash	-86	-21	14	74	154
Cash, beginning	615	528	509	522	596
Exchange difference	-1	1	0	0	0
Cash, end	528	509	522	596	750

Balance sheet

YE 31 Dec (US\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Current assets	848	1,043	1,074	1,218	1,428
Cash & equivalents	528	509	522	596	750
Trade & other receivables	215	268	253	309	336
Inventories	75	125	153	164	192
Other current assets	30	141	146	148	150
Non-current assets	147	200	267	297	332
PPE	30	30	46	61	75
Intangibles & GW	105	91	85	81	78
Other non-current assets	12	79	137	155	179
Total assets	995	1,243	1,341	1,514	1,760
Current liabilities	402	621	681	752	848
Trade & other payables	378	584	643	710	802
Customer funds	13	20	21	23	27
Other current liabilities	11	16	17	18	19
Non-current liabilities	18	15	34	33	35
Lease liabilities	10	7	24	23	22
Other non-current liabilities	8	8	11	10	13
Total liabilities	420	636	715	784	883
Total equity	575	607	626	730	877
Share capital	89	89	89	90	92
Share premium	684	673	626	594	572
Reserves	-205	-179	-112	20	186
Minority interests	7	25	23	25	27
Total liabilities and equity	995	1,243	1,341	1,514	1,760

Key ratios

YE 31 Dec (US\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue by segment					
Peripherals	445	773	1,083	1,353	1,556
Systems	269	310	342	393	452
Software/Services/Fintec	77	128	151	201	247
Others	30	2	2	0	0
Total	821	1,215	1,577	1,947	2,255
Growth (%)					
Revenue	15.2%	48.0%	29.8%	23.5%	15.8%
Adj. EBITDA	62.7%	-151.6%	204.1%	189.8%	124.7%
Net profit	-13.2%	-106.7%	796.3%	98.1%	38.8%
Profit & loss ratio (%)					
Gross margin	20.5%	22.3%	25.2%	27.5%	28.0%
EBITDA margin	-3.6%	3.7%	5.8%	8.9%	9.6%
Net profit margin	-10.3%	0.5%	3.2%	5.1%	6.1%
Balance sheet ratio					
Net debt/total equity (%)	-89.5%	-82.0%	-79.0%	-78.0%	-82.5%
Cash conversion cycle (days)	-76.3	-75.5	-87.4	-81.7	-78.1
Profitability (%)					
ROE	-14.6%	0.9%	8.0%	13.7%	15.8%
ROA	-8.5%	0.5%	3.8%	6.6%	7.9%
Per share data (US\$)					
EPS	-0.010	0.001	0.006	0.011	0.016
BVPS	0.066	0.066	0.069	0.080	0.096

Source: Company data, CMBIS estimates

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