

31 Dec, 2021

Bright Future | 01351.HK

Exploration of new income stream

STOCK RATING

NR

TARGET PRICE

HK\$ -

Bright Future (01351.HK) is a mobile advertising company offering one-stop and tailor-made advertising services to customers in China, its services range from promotion planning, advertisement production and placement to post-publication monitoring. It achieved RMB 223.5mn and RMB 565.0mn gross revenue from the intelligent marketing solutions recognized by Gross method and intelligent marketing solutions recognized by Net method respectively in 2021 1H, implying approximately YoY 42.3% and YoY 61.1% respectively. However, an increase in the traffic cost derived from the surging adoption of leading media platforms dragged the net revenue growth of the intelligent marketing solutions recognized by Net method to YoY 18.4% and slashed the gross margin by 5.7p.p. to 24.0%.

Introduction of SaaS subscription solution: SaaS subscription solution is a new offer provided by Bright Future (01351.HK), covering the services like data monitoring, CRM, content production and ads distribution. The official launch of the SaaS subscription solution will be carried out in late 2021, according to the latest announcement of Bright Future (01351.HK), and the pilot version has been received by the Group's potential customers. The SaaS subscription solution helps expand the customer base and potentially generate steady cash inflow from the subscription service, and it is expected that the SaaS subscription solution will bring the Group a new revenue stream.

Lower sensitivity to recent regulation changes: Bright Future (01351.HK) has built a resilient customer portfolio which helps it withstand the recent regulation changes in China, resulting in a lower sensitivity to the regulations targeting e-commerce, mobile games and education industries.

Increasing video production capacity: Video advertising is gaining importance in the advertising industry in China due to the growing popularity of short video platforms, resulting in a booming budget allocation on video advertisements. Short video ads accounted for approximately 17.4% market shares of online advertising in China in 2020, making it the second-largest ads format across the market, according to iResearch. Bright Future (01351.HK) commenced to offer one-stop short-video advertising services since Apr 2018, and Bright Future (01351.HK) levelled up its production scale through its Wuhan short-video base which commenced its operations in Apr 2021.

COMPANY NOTE

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Bright Future (01351.HK)

Stock Rating NR (NR)

Target Price HK\$ - (HK\$ -)

Current Price HK\$ 0.78

52-Week Range HK\$ 0.75 – 4.60

Market cap. (HKD, bn) HK\$ 0.4

RMB, mn	17(A)	18(A)	19(A)	20(A)
Revenue	102.6	254.9	281.9	382.8
Gross Profit	39.5	79.9	81.4	116.2
Gross Margin	38.6%	31.3%	28.9%	30.4%
Net Profit	30.9	42.4	38.4	67.3
EPS	-	-	0.103	0.172
ROE	-	71.2%	36.3%	31.8%

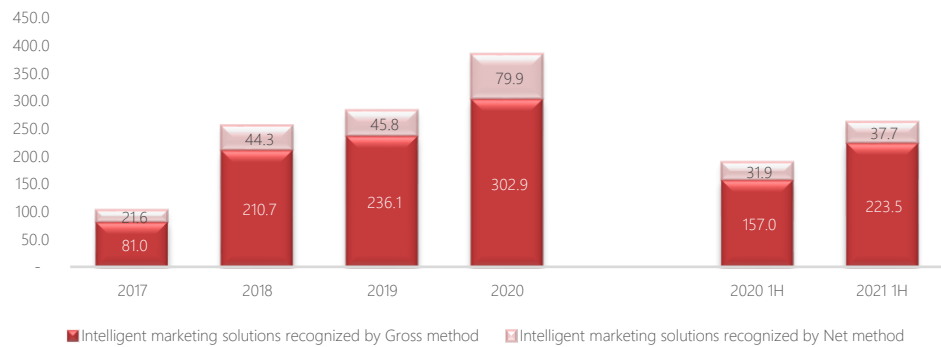
Performance	1 mth	3 mth	6 mth	1 year
Absolute	-2.5%	-22.0%	-43.5%	-61.0%
Relative to HSI	-1.0%	-16.0%	-23.7%	-46.1%



Business Overview

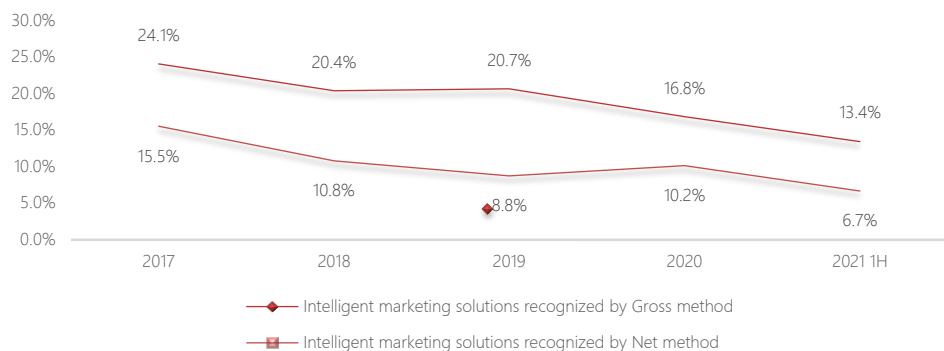
Bright Future (01351.HK) is a mobile advertising company offering one-stop and tailor-made advertising services to customers in China, its services range from promotion planning, advertisement production and placement to post-publication monitoring. It achieved RMB 223.5mn and RMB 565.0mn gross revenue from the intelligent marketing solutions recognized by Gross method and intelligent marketing solutions recognized by Net method respectively in 2021 1H, implying approximately YoY 42.3% and YoY 61.1% growth respectively when compared to 2020 1H. However, an increase in the traffic cost derived from the surging adoption of leading media platforms dragged the net revenue growth of the intelligent marketing solutions recognized by Net method to YoY 18.4% and slashed the gross margin by 5.7p.p. to 24.0%.

Exhibit: Total revenue of Bright Future (01351.HK)



Source: Company data, West Bull Securities

Exhibit: Profit margin of intelligent marketing solutions recognized by Gross and Net method*



Source: Company data, West Bull Securities

* Profit margin of Gross method: $(\text{gross revenue of intelligent marketing solutions recognized by Gross method} - \text{traffic cost}) / \text{gross revenue of intelligent marketing solutions recognized by Gross method}$

* Profit margin of Net method: $(\text{gross revenue of intelligent marketing solutions recognized by Net method} - \text{traffic cost}) / \text{gross revenue of intelligent marketing solutions recognized by Net method}$

Investment Thesis

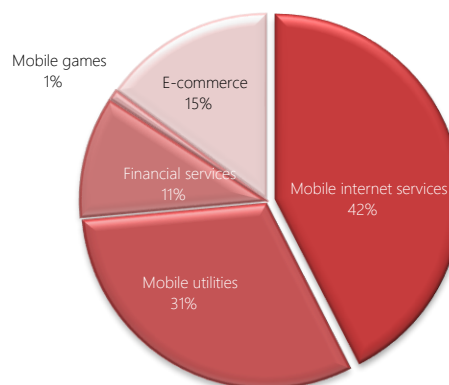
Introduction of SaaS subscription solution

SaaS subscription solution is a new offer provided by Bright Future (01351.HK), covering the services like data monitoring, CRM, content production and ads distribution. The official launch of the SaaS subscription solution will be carried out in late 2021, according to the latest announcement of Bright Future (01351.HK), and the pilot version has been received by the Group's potential customers. In addition, the Group has constructed a cloud-based repository system for all stock videos and images created, the stock videos can be accessed and utilized for the automation of different advertising projects. Unlike the traditional advertising services provided to the leading companies, the SaaS subscription solution targets the SME which do not have i) a complete design and production team, ii) capital resource to develop software that consolidates all distribution channels. It helps expand the customer base and potentially generate steady cash inflow from the subscription service, and it is expected that the SaaS subscription solution will bring the Group a new revenue stream.

Lower sensitivity to recent regulation changes

Bright Future (01351.HK) has built a resilient customer portfolio that helps it withstand the recent regulation changes in China, resulting in a lower sensitivity to the regulations targeting e-commerce, mobile games and education industries. The majority of revenue recognized by Bright Future (01351.HK) was generated from the customers engaging in the mobile internet services sector (incl. informative and entertainment mobile utilities like music applications, video browsing and sharing applications and news applications etc.) and mobile utility industry (incl. web browsers, cleaner applications and anti-virus software etc.), customers from e-commerce, mobile games and education industries contributed less than 20% of total revenue to Bright Future (01351.HK)

Exhibit: Net revenue contributed by different sectors

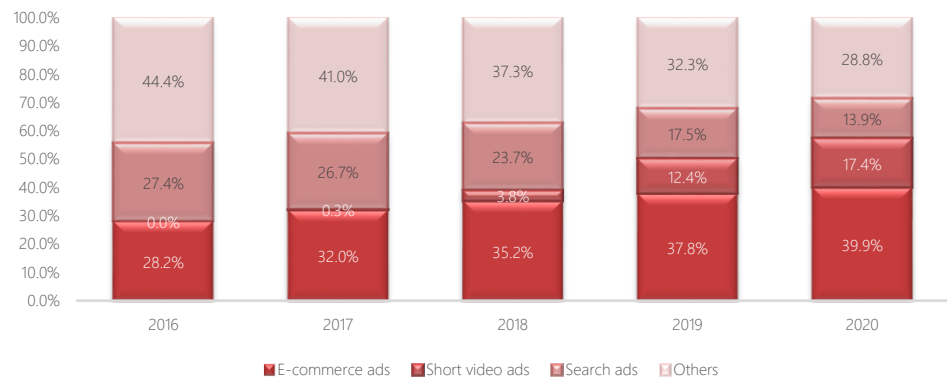


Source: Company data, West Bull Securities

Increasing video production capacity

Video advertising is gaining importance in the advertising industry in China due to the growing popularity of short video platforms, resulting in a booming budget allocation on video advertisements. Short video ads accounted for approximately 17.4% market shares of online advertising in China in 2020, making it the second-largest ads format across the market, according to iResearch.

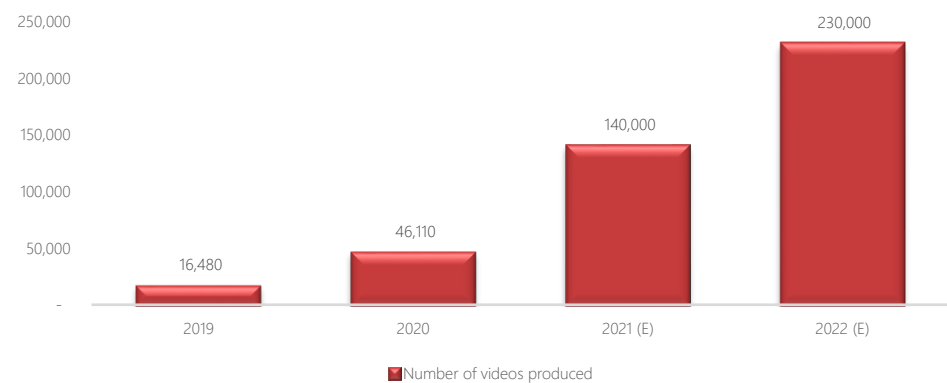
Exhibit: Market shares of different forms of online advertising in China



Source: iResearch, West Bull Securities

Bright Future (01351.HK) commenced offering one-stop short-video advertising services since Apr 2018, covering the services like content production (incl. idea creation, scripted filming, postproduction) and precision marketing (incl. performance-based marketing strategy planning, stock footage creation, advertisement optimization, data analytics, media monitoring). Bright Future (01351.HK) levelled up its production scale through its Wuhan short-video base which commenced its operations in Apr 2021, and it targets producing 140,000 and 230,000 videos in 2021 and 2022 respectively.

Exhibit: Video production forecast of Bright Future (01351.HK)

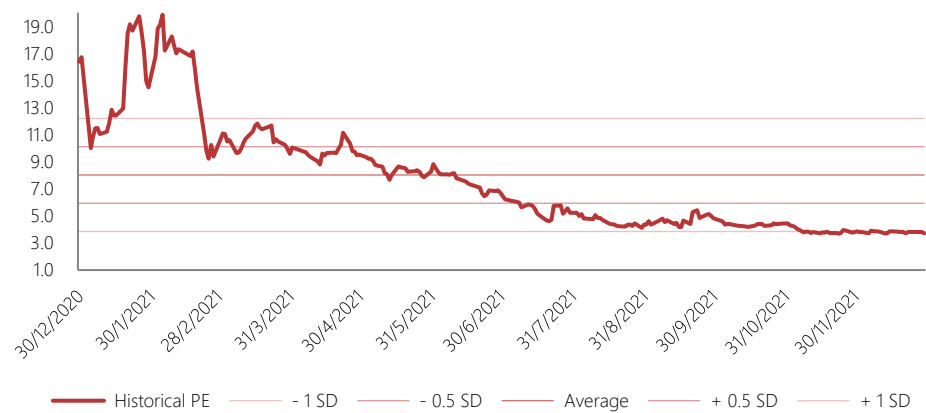


Source: Company data, West Bull Securities

Valuation

Bright Future (01351.HK) recorded RMB 188.9mn and RMB 261.2mn total revenue in 2020 1H and 2021 1H respectively, an increment in traffic cost dragged the gross margin from 29.7% in 2020 1H to 24.0% in 2021 1H. Despite a flat net profit margin caused by listing expenses in 2020 1H and deferred tax assets in 2021 1H, the adjusted profit margin fell to approximately 16.0% in 2021 1H. Bright Future (01351.HK) is trading at approximately 3.7x historical PE (~7.6x in 2021 on average), and it nearly hits the lowest point since its listing on the Hong Kong Stock Exchange.

Exhibit: PE Band of Bright Future (01351.HK)



Source: West Bull Securities

Peers comparison

		Mkt. Cap.	P/E	Fw. P/E	P/B	P/S	Revenue	GM	ROE
		(HKD, mn)	(%)	(%)	(%)	(%)	(HKD, mn)	(%)	(%)
01163.HK	AdTiger	560.3	-	-	2.6	2.0	236.7	20.3	(5.1)
01860.HK	Mobvista	11,415.9	-	48.9	4.9	2.4	4,003.3	15.9	(20.3)
02131.HK	Netjoy	2,044.8	10.2	7.9	1.0	0.4	2,899.8	7.9	15.4
06988.HK	Joy Spreader	4,098.7	41.6	12.7	5.2	1.5	1,329.6	63.7	11.8
09911.HK	Newborn Town	5,332.1	24.6	12.5	2.3	3.7	1,039.6	32.6	14.2
	<i>Average</i>	<i>4,690.3</i>	<i>25.4</i>	<i>20.5</i>	<i>3.2</i>	<i>2.0</i>	<i>1,901.8</i>	<i>28.1</i>	<i>3.2</i>
01351.HK	Bright Future	395.0	3.8	-	1.1	0.7	430.7	30.4	31.8

Source: Bloomberg, West Bull Securities

Risk factors

- Increasing traffic cost slashes the profit margin of Bright Future (01351.HK)
- Keen competition hinders the expansion progress in China
- The progress of new business development (e.g. SaaS service) is slower than expected
- Weaker demand for marketing results from tighter regulations imposed on different industries in China

Financial Statement

PnL					Balance Sheet				
(RMB, mn)	2017 (A)	2018 (A)	2019 (A)	2020 (A)	(RMB, mn)	2017 (A)	2018 (A)	2019 (A)	2020 (A)
Revenue	102.6	254.9	281.9	382.8	PPE	0.8	2.4	5.6	5.0
<i>YoY growth</i>		148.5%	10.6%	35.8%	Others	1.1	0.9	2.2	2.2
COGS	(63.0)	(175.1)	(200.5)	(266.6)	Non-current assets	1.9	3.3	7.8	7.2
Gross profit	39.5	79.9	81.4	116.2	Inventories	-	-	-	-
Other income	-	-	2.0	10.3	Trade receivables	56.0	162.1	223.4	335.1
Operating expenses	(8.6)	(34.5)	(38.1)	(54.5)	Cash & cash equivalents	9.0	12.2	23.8	97.2
Operating profit	31.0	45.4	45.3	71.9	Others	19.7	71.0	82.6	138.3
Finance expenses	(0.1)	(0.3)	(0.5)	(0.8)	Current assets	84.7	245.2	329.7	570.5
JV & Ass.	-	-	-	-	Total assets	86.6	248.5	337.6	577.8
Profit before tax	30.9	45.1	44.7	71.1	LT borrowings	4.7	3.7	-	-
Tax	-	(2.7)	(6.3)	(3.8)	Others	-	0.7	2.5	1.1
Net profit	30.9	42.4	38.4	67.3	Non-current liabilities	4.7	4.4	2.5	1.1
<i>YoY growth</i>		37.3%	-9.3%	75.2%	Trade payables	31.5	110.5	115.6	130.5
					ST borrowings	-	5.2	30.5	82.5
					Others	14.3	45.5	60.2	69.2
					Current liabilities	45.7	161.2	206.2	282.2
					Total liabilities	50.4	165.6	208.7	283.3
					Non-controlling interests	-	-	-	-
					Controlling interests	36.2	82.9	128.8	294.5
					Total equities	36.2	82.9	128.8	294.5

Cash Flow					Financial Ratio				
(RMB, mn)	2017 (A)	2018 (A)	2019 (A)	2020 (A)		2017 (A)	2018 (A)	2019 (A)	2020 (A)
Profit before tax	30.9	45.1	44.7	71.1	Gross margin		31.3%	28.9%	30.4%
Finance expenses	0.1	0.3	0.5	0.8	Operating margin		17.8%	16.1%	18.8%
Finance income	0.0	0.0	0.0	0.1	Net profit margin		16.6%	13.6%	17.6%
D&A	0.7	1.0	2.4	2.4	Adj. EBITDA profit margin		21.5%	21.3%	21.5%
Others	0.1	3.5	(0.2)	(0.9)	Return on Equity		71.2%	36.3%	31.8%
Change in working capital	(28.7)	(50.6)	(59.7)	(155.1)	Return on Asset		25.3%	13.1%	14.7%
CFO	3.1	(0.6)	(12.2)	(81.5)	Current ratio		152.2%	159.9%	202.2%
					Quick ratio		152.2%	159.9%	202.2%
CAPEX	(0.4)	(0.2)	(1.2)	(1.0)	Cash ratio		7.6%	11.5%	34.4%
Others	-	-	(0.2)	0.2	Debt-to-Equity ratio		10.7%	23.7%	28.0%
CFI	(0.4)	(0.2)	(1.4)	(0.8)	Net Debt-to-Equity ratio		-4.0%	5.2%	-5.0%
Shares issuance	-	-	-	107.4					
Net borrowings	3.1	3.9	21.2	51.4					
Interest paid	-	-	-	-					
Dividend paid	-	-	-	-					
Others	1.9	0.2	3.9	(2.0)					
CFF	5.0	4.1	25.1	156.8					
FCFE	92.8	514.0	488.8	635.8					
FCFF	392.8	514.0	488.8	635.8					

Source: Company data, West Bull Securities

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