



中國通海證券
CHINA TONGHAI SECURITIES

Activation Group Holdings Limited

Metaverse ready; initiate with BUY

Initiation of Coverage

Activation Group Holdings Limited ("Activation") is committed to bringing its clients with the latest and trendiest marketing initiatives. The company has been a prominent marketing partner for global luxury and premium brands in Greater China with over 12 years of collaboration. Having put up numerous impressive fashion shows and branding events for its renowned clientele, the company has successfully introduced them to the unique world of the Chinese livestreaming e-commerce arena with impressive results. Furthermore, it is preparing to connect its clients to the metaverse by teaming up with a leading VR content production house. We believe Activation has demonstrated its ability to deliver avant-garde marketing and promotion services in one of the world's fastest-growing luxury market. We initiate coverage on Activation's shares with a BUY rating and a TP of HK\$2.96, which implies a 74.1% upside potential.

A one-stop marketing agency for well-known brands: Activation has accumulated a pool of over 500 renowned global brands as of 30 Jun 2021, including BVLGARI, CHANEL, DIOR, GUCCI, LOUIS VUITTON, PRADA, VERSACE, AUDEMARS PIGUET, BLANCPAIN, AUDI, BMW, Mercedes-Benz, Tiffany & Co., etc. It is a long-term marketing and promotion partner for these brands in Greater China. It also provides data-driven services, including digital marketing, livestreaming e-commerce, experiential marketing, event planning and management, world-class IP development, and high-end real estate operations.

New business initiatives as catalysts: Through the JV with Vision Entertainment, Activation secured a strong partner in the livestreaming e-commerce market in China. Since July 2021, it has completed over 20 sessions of celebrity livestreaming sales with an average GMV of about RMB20mn. We expect the annual GMV would reach RMB1.5bn in 2022E. In addition, the company is teaming up with VeeR, a leading VR content producer in China, to enrich its services into the metaverse in meeting the diversified marketing needs of the brand customers. Looking ahead, the company will continue to look for M&A as well as cooperation in the field of digital marketing to increase its business volume and market share rapidly.

Initiate at BUY: We initiate coverage of Activation with a Buy rating, as we expect its forward P/E discount to narrow given its leading position in the market, rich customer base, and the solid potential of a new livestreaming e-commerce initiative. Our target P/E-derived TP of HK\$2.96 implies 2022E P/E of 12.0x and is backed by solid profitability (2020-23E attributable net profit CAGR of 104%).

Key catalysts: Faster-than-expected growth on its livestreaming e-commerce GMV; faster-than-expected growth of luxury consumption in Mainland China; higher-than-expected marketing budget of premium brands in Mainland China.

Key risks: Failure to execute its strategic upgrades; slower-than-expected growth on its livestreaming e-commerce GMV; regulation risk on livestreaming e-commerce.

Activation Group's Key Financials

(RMB'mn)	2019	2020	2021E	2022E	2023E
Revenue	662	458	946	1,258	1,561
Growth	-3.3%	-30.8%	106.5%	33.0%	24.1%
Profit before tax	67	39	153	225	290
Growth	2.6%	-42.3%	297.5%	46.7%	28.9%
Attributable net profit	30	23	106	155	200
Growth	-19.1%	-21.8%	351.4%	46.7%	28.9%
P/E (x)	28.4	46.4	10.1	6.9	5.3

Source: Company Data, China Tonghai estimates

Equity Research
Digital Marketing

14 Jan 2022

Ticker	9919 HK
Stock Rating	BUY
Industry View	POSITIVE
Price Target (HK\$)	2.96
Price (13-Jan-2022)	HK\$ 1.70
Potential	74%
Upside/Downside	Upside
Market Cap (HK\$m)	1,281.3
Shares Outstanding (mn)	753.7
Free Float (%)	10.3
3M Avg Daily Turnover (HK\$m)	0.40
52 Week range	HK\$ 0.67-2.03



Source: Bloomberg

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INVESTMENT SUMMARY

Preferential partner for luxury and premium brands

Activation is a leading interactive data performance marketing group for global premium brands in Greater China, offering full-range marketing and promotional services, including experiential marketing, digital and brand communication, public relations services, digital marketing, e-commerce services, IP operations, etc. In 2020, it was the largest experiential marketing company serving luxury and trendy brands in Greater China (CIC). It has over 12 years of collaboration with international premium brands. As of 30 Jun 2021, Activation has over 500 cumulative number of brand customers in promotion and marketing. It has a successful track record, such as hosting the "LOUIS VUITTON 2021 Spring Summer Menswear" fashion show on 6 Aug 2021 and "CHRISTIAN DIOR: DESIGNER OF DREAMS" exhibition on 24 Jul – 4 Oct 2021. Given the expectation of consumption upgrades and strong purchasing power from generation Z and millennials, both the marketing budget of premium brands and luxury good consumption in Mainland China are expected to record tremendous growth in the coming few years.

In addition, we understand that luxury brands will usually book the sales according to the nationality of the customer instead of store location. Therefore, with the increasing number of Chinese procurement service (“代购”) agencies worldwide, brands are likely to allocate more marketing budget for the Mainland China market. With the long-term relationship with the well-known brands, we expect Activation to ride on such tailwind and become one of the major beneficiaries.

Livestreaming e-commerce becomes a new driver

Amid the COVID-19-led closure of retail shops, consumers are hungry to spend and socialise. Livestreaming offered both digital engagement and an interactive shopping experience. Highly interactive and entertaining, livestreaming started initially more in lower-tier cities in Mainland China but has now grown into the hype and attracted the eyeballs of many international brands. The shift to online-based consumption has become unavoidable in the post-pandemic era, as digital platforms evolve to appeal to digital-savvy Mainland Chinese consumers. The Chinese livestreaming e-commerce industry is expected to grow at a 58.3% CAGR in 2020-23E (Statista), reaching RMB4.9trn at the end of the period. We believe that Activation has solid competitiveness compared to other players in the industry as Activation's long-term relationship with luxury and premium brands would help it provide well-known products with high quality and authenticity. The JV with Vision Entertainment launched the first livestreaming e-commerce series in Jul 2021, averaging some RMB20mn of GMV per session. We expect such business to record a total GMV of RMB1.5bn in 2022E and contribute c.7% of the total revenue of Activation in that year.

Furthermore, Activation is developing digital marketing technology and e-commerce and providing global e-commerce services, as the dissemination on online channels (especially social media channels) of offline experiential marketing interactive activities can attract public attention and effectively activate online data interaction. Activation aims to seize further opportunities for the brands to enter livestreaming e-commerce in the future to realise the seamless connection of online to offline marketing for the brands. The company is also improving its ability in e-commerce operations and expects to connect and realise offline and online consumer data, constantly improve and accumulate consumer behaviour and preference data of mid-to-high-end brand

consumers, assist brands in making operational decisions, enhancing the strategic value and reliance on the company by the brands, and ultimately increase its profits by sharing the profit from the incremental e-commerce sales of the brands.

Expanding into VR marketing business

Activation vows to bring the most up-to-date marketing strategies to its clients. It recently made a strategic investment in Weikuai Technology Group (為快科技集團) ("VeeR Group") and formed a JV with a subsidiary of VeeR Group to gain access to the latest virtual reality (VR) technologies. The new venture will promote the adoption of VR into their clients' events and marketing process taking consumers to the metaverse ecosystem. It is believed that there will be huge marketing needs of metaverse for the global brands going forward. VeeR Group is a global leader in the VR content industry and the only VR technology company on the Forbes Asian list. The VR content produced by the VeeR Studio platform has won a series of awards in film festivals. Activation is expected to have a majority shareholding in the JV.

IP Promotion and venue operation

Activation has cooperation agreements with LaLiga and Amaury Sport Organisation till 2026 for the rights to organise authorised events with the LaLiga Club brand and Le Tour de France brand in Mainland China. Nothing much has happened in 2021, but with the easing of the pandemic, more events are expected to be held in the near future. In addition, Activation has established a JV with Hongkong Land Limited to jointly operate the exhibition venues in Shanghai, which is expected to be an ideal venue for product launches and promotional events. With access to a prestigious venue, we expect it will provide an additional income stream to the company in the long term.

Seeking potential M&A targets

The digital economy is emerging in Mainland China. With the outbreak of the COVID-19 pandemic, the economy has been severely affected, creating a good opportunity for the rapid development of the digital economy. At the same time, advanced 5G development in China has presented huge business opportunities to digital marketing. Activation is using customised software for big data analysis to improve operating efficiency and service types. In order to rapidly increase business volume and market share, the company plans to accelerate the development of digital marketing business through M&A in Mainland China, and is identifying acquisition targets such as E-commerce solutions and SaaS companies.

Healthy financial position

The company recorded strong cash flow from operations of HK\$24.6mn in 1H21 with HK\$3.8bn of net cash on hand as of 30 Jun 2021. Owing to the cash-rich position, Activation intends to maintain a stable dividend payment in the near term. We expect its payout ratio to be not less than 20% in 2021-23E (excluding a one-off special dividend in 1H21). We believe this payout ratio is sustainable given its sound financial position and solid business operation.

Initiate with BUY and a target price of HK\$2.96

We initiate coverage of Activation's shares with a BUY rating as we are positive on its leading market position, robust growth of luxury consumption in Mainland China, and new livestreaming e-commerce business initiative. Our target price of HK\$2.96 implies 12.0x 2022E P/E and 74.1% upside potential. We believe Activation's forward P/E discount to its digital marketing solution peer group's average of 14.4x 2022E P/E to narrow in the near to medium term. We believe such valuation is justified given the expected attributable net profit CAGR for 2020-23E of 104%.

Key risks

- Failure to execute its strategic upgrades;
- Slower-than-expected growth on its livestreaming e-commerce GMV;
- Regulation risk on livestreaming e-commerce;
- Fail to compete effectively and maintain margins.

VALUATION

We initiate coverage on Activation's shares with a BUY rating with a target price of HK\$2.96, implying 74.1% upside potential. Our target P/E methodology values the company at 12.0x 2022E P/E, which is supported by our expectation for solid attributable net profit growth (2020-23E CAGR of 104%).

Initiate with BUY rating and 12-month TP of HK\$2.96

We set our 12-month price target for Activation at HK\$2.96 based on SOTP valuation, which we believe best reflects (i) the intrinsic value of its leading market position; (ii) the massive potential for its new livestreaming e-commerce business; (iii) the solid growth of consumption power on luxury products in Mainland China in the near future; and (iv) increasing marketing budget of premium brands in Mainland China.

Our target price is determined by comparing the forward P/E of listed marketing and livestreaming e-commerce companies. Our target P/E multiple is at a discount to its peers given the business scale of Activation is relatively smaller. Such valuation is supported by our expectation for its attributable net profit CAGR of 104% in 2020-23E.

We anticipate the payout ratio of Activation will be no less than 20% in the near future as the company is expected to generate strong cash flow. This assumption gives us an expected dividend payment of 4.94 HK cents per share in 2022E, representing an expected yield of about 2.9% at the current price.

Figure 1. Activation – Target P/E valuation

RMB'mn	Valuation
2022E Attributable net profit	155.1
Target P/E multiple	12.0x
Total valuation	1,861
Total diluted shares	753,718,000
Exchange rate (RMB/HKD)	1.20
Target price (HK\$)	2.96

Source: Company data, China Tonghai estimates

We believe Activation's shares should trade in line with its peer group, given:

- Growth potential for livestreaming e-commerce business – Leveraging on the strong relationship with the global brands, Activation would be able to build a successful marketing to sales system which has a huge growth potential, in our view.
- Globally leading market position – Activation is the largest experiential marketing company serving luxury and trendy brands in Greater China, claiming a 7% share of the market in 2020 (CIC). As of 30 Jun 2021, Activation has over 500 cumulative number of brand customers.
- Rapid growth of luxury consumption in Mainland China in 2021-23E – Given that the expectation of consumption upgrades and strong purchasing power from generation Z and millennials, both marketing budget of premium brands and

luxury good consumption in Mainland China are expected to record a tremendous growth in the coming few years.

We expect Activation to record a 2022E EPS growth of 46.7% y/y, above the global peers' average of 39.4% y/y. However, Activation's shares are currently trading at 6.9x 2022E P/E, far below the peer group average of 14.4x.

Fig 2. Peers' valuation

Company Name	Ticker	Lcy	Price	MktCap US\$bn	3m Vol US\$m	EPS Growth (%)		P/E (x)		P/S (x)		ROE (%)		EV/EBIT (x)		Net D/E (%) 2020
						2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	
ACTIVATION GROUP	9919 HK	HKD	1.70	0.2	0.2	359.9	46.7	10.1	6.9	1.1	0.8	28.9	34.3	5.7	3.1	(81)
Digital Marketing																
WEIMOB INC	2013 HK	HKD	7.12	2.3	34.3	(395.1)	67.7	-	-	5.4	4.2	(30.1)	(1.2)	-	325.8	36
MOBVISTA INC	1860 HK	HKD	6.85	1.5	2.0	710.8	50.0	50.0	33.3	2.4	2.1	9.8	13.6	83.2	45.2	(8)
CHINA YOUZAN LTD	8083 HK	HKD	0.45	1.0	5.4	(61.6)	31.0	-	-	3.9	3.2	(14.9)	(12.5)	-	-	(22)
JOY SPREADER GRO	6988 HK	HKD	2.38	0.7	2.7	79.1	68.8	12.1	7.2	3.0	2.1	14.1	19.0	9.1	5.6	(55)
HYPEBEAST	150 HK	HKD	1.09	0.3	0.1	-	-	-	-	-	-	-	-	-	-	(34)
Average						83.3	54.4	31.1	20.3	3.7	2.9	(5.3)	4.7	46.1	125.5	(17)
Livestreaming e-commerce																
HUAWEN-A	000793 CH	CNY	2.92	0.9	20.8	-	-	-	-	-	-	-	-	-	-	116
SHENZHEN ELLAS-A	603808 CH	CNY	13.93	0.8	6.8	(25.5)	19.2	14.0	11.7	2.1	1.8	13.1	14.1	9.7	8.3	(11)
FIYTA PRECISI-A	000026 CH	CNY	12.22	0.8	10.4	49.0	21.4	12.1	10.0	0.9	0.7	13.9	15.1	6.9	5.7	7
HAOXIANGNI-A	002582 CH	CNY	8.87	0.6	7.0	-	-	-	-	-	-	-	-	-	-	(32)
GUANGZHOU HOLI-A	603898 CH	CNY	12.40	0.6	4.0	22.5	17.7	11.4	9.7	1.1	0.9	11.3	12.4	6.7	5.9	(4)
Average						15.3	19.5	12.5	10.5	1.4	1.2	12.8	13.9	7.8	6.7	15
Global Average						54.2	39.4	19.9	14.4	2.7	2.1	2.5	8.6	23.1	66.1	(1)

Source: China Tonghai estimates for Activation, Bloomberg consensus estimates for all others

Note: Prices as of 13 Jan 2022 close

Sensitivity analysis of TP

Figure 3. Target price sensitivity analysis of Activation on P/E basis

PE Ratio (x)	Changes on 2022E earnings forecasts						
	-15%	-10%	-5%	0%	5%	10%	15%
9.0	1.89	2.00	2.11	2.22	2.33	2.44	2.56
10.0	2.10	2.22	2.35	2.47	2.59	2.72	2.84
11.0	2.31	2.44	2.58	2.72	2.85	2.99	3.12
12.0	2.52	2.67	2.81	2.96	3.11	3.26	3.41
13.0	2.73	2.89	3.05	3.21	3.37	3.53	3.69
14.0	2.94	3.11	3.28	3.46	3.63	3.80	3.98
15.0	3.15	3.33	3.52	3.70	3.89	4.07	4.26

Source: China Tonghai estimates

Key catalysts

Below, we highlight the key share price catalysts in the next 12 months, including:

- **Faster-than-expected growth in livestreaming e-commerce business** – The livestreaming e-commerce business should grow faster than our expectations, further driving the segment's revenue.
- **Increasing marketing budget of premium brands in Mainland China** – The marketing budget was estimated to reach RMB39.8bn by 2023E, from RMB16.6bn in 2020 (CIC). Activation will be benefited if the budget increase faster than expected.
- **Improving cost control and operating efficiency** – Activation's profitability would increase faster than expected if it can further enhance its cost control and operating efficiency.

Risks

The key downside risks to our valuation for Activation include:

Fail to maintain the relationship with brand owners

If the company's marketing solutions services are not able to achieve the clients' desired marketing objectives, or if any projects or events adversely affect its clients' reputation, which in turn could have a material adverse effect on its relationships with clients, reputation and revenue.

Regulation risk on livestreaming e-commerce business

Some livestreaming contributors were fined for withholding personal income and other offences and were called for a suspension in the business. Any misconduct of the company's livestreaming contributors or tightening regulation of the livestreaming e-commerce market could adversely affect its revenue and business prospects.

Slower-than expected sales growth

A decline in the popularity of online shopping in general, or any failure by the company to adapt its livestreaming e-commerce business and improve its customers' online shopping experience in response to trends and consumer requirements, may adversely affect its revenue and business prospects.

Fail to compete effectively and maintain margins

The retail industry in Mainland China, in particular the online retail industry, is intensely competitive. The company competes for customers, orders, products, and third-party merchants. Its current or potential competitors include major e-commerce companies in Mainland China that offer a wide range of general merchandise product categories, major traditional retailers that are moving into online retailing, online retail companies focused on specific product categories and other online platforms that also aim to offer livestreaming e-commerce services. Increased competition may reduce its margins and market share or result in significant losses.

BUSINESS OVERVIEW

Activation Group is a leading and fast-growing integrated marketing solutions provider that focuses on experiential marketing, digital and brand communication, and public relations services that mainly operate in Greater China. The company also focused on developing sports and entertainment IP.

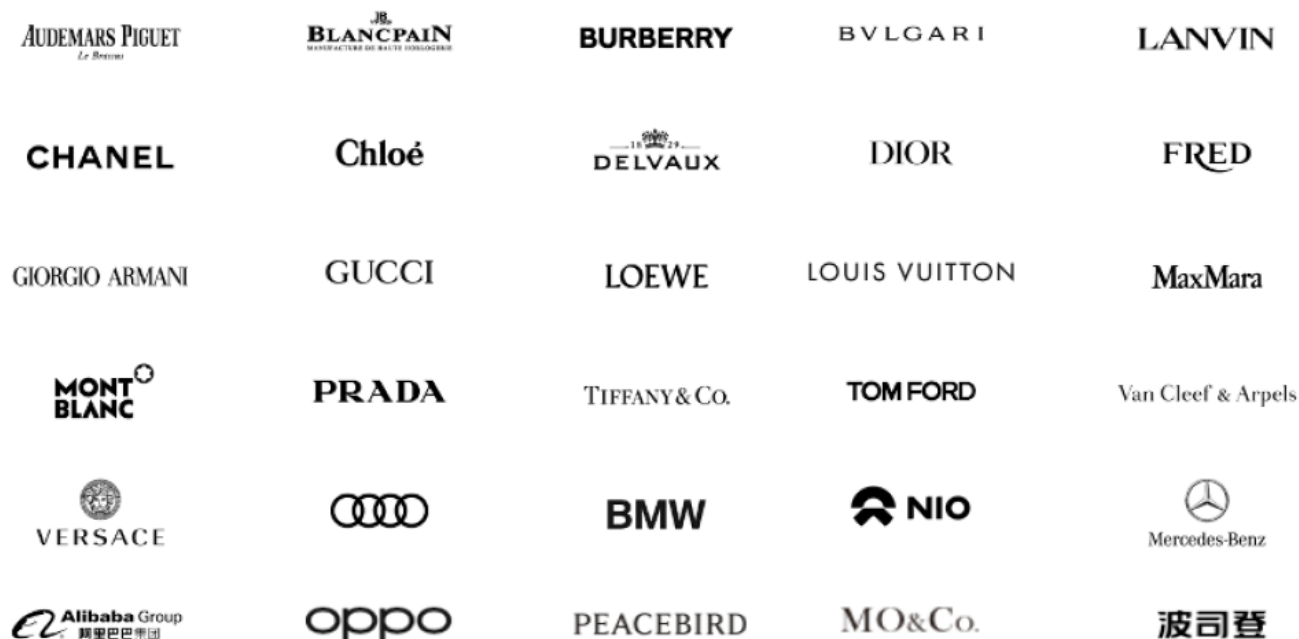
Core businesses

Integrated Marketing Solutions Segment

Experiential Marketing

Activation is an experiential marketing service provider to premium and luxury brands in Greater China. It provides a comprehensive range of marketing solutions to its clients, including event concept, planning, productions, and management. Thanks to the rapid growth of luxury consumption in Mainland China and the recovery of the Hong Kong market from the impact of COVID-19, the company has launched a number of events in the first half of 2021, such as CARTIER Trees Exhibition, GUCCI Aria Collection Launch Show, CINDY CHAO “The Art Jewel Exhibition, GUCCI Garden “Archetypes Exhibition, PRADA OUTDOOR POPUP, and MERCEDES-AMG GLA 35 & GLB 35 Extraordinary Journey.

Fig 4. Activation – Selected brand customers



Source: Company Data

Digital and Brand Communication

Activation’s digital and brand communication services usually help customers promote their brands and products on social media platforms such as Weibo, WeChat, Douyin, Xiaohongshu, Facebook, Instagram, etc. The company expanded the original scope of service for digital marketing to comprehensive digital campaign offering which include

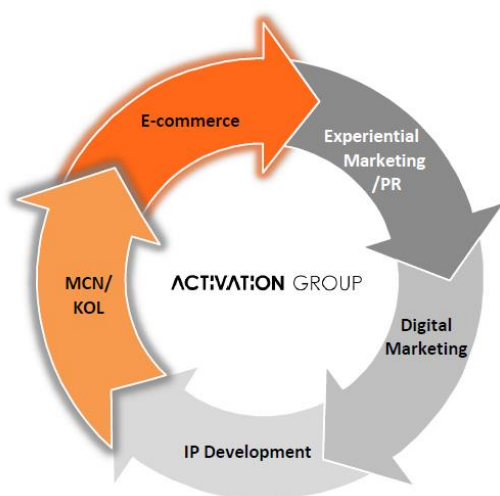
the MCN and target media services. In 1H21, Activation was the retainer agency of numerous brands, including MAXMARA, CLARINS, GIVENCHY BEAUTY, SK-II, TORY BURCH and LOEWE. During 2021 Interim, the company has also launched a few digital marketing campaigns, for instance LEGO CNY Digital Campaign, BALABALA “Boundless Dream” Campaign and DIOR 2021 J’adore Infinissime MP Project.

Activation also participated in public relations services which typically involve marketing activities that help its clients develop communication plans to reach out to their targeted consumers. These services include public relations strategic consultancy services, day-to-day client communications, media relationship management, liaison and celebrity coordination services. The company is the retainer agency of DELVAUX, ROSEWOOD, L’ARTISAN and PENHALIGONS. Besides, Activation also carried out many PR events in 1H21, such as CARTIER Tmall Super Brand Day Livestreaming, FENDI 21SS Couture Shanghai Event, LOUIS VUITTON Foundation Exhibition, BA 2021 New Collection Launch Show, etc.

New business initiatives

Activation recently came up with several initiatives to leverage clientele and step up digital marketing. We believe the following comprehensive strategic upgrading to be the key growth drivers for Activation, including 1) Celebrity livestreaming e-commerce; 2) MCN agency business; 3) Strategic partnership with Fosun Fashion Group; and 4) Established JV with HongkongLand Limited. Such upgrades are expected to have solid synergy effects with its core businesses.

Fig 5. Activation – Comprehensive strategic upgrading



Celebrity Livestreaming e-Commerce

Established JV (owns 51%) with Douyin’s#1 MCN provider, Vision Entertainment to jointly provide celebrity livestreaming e-commerce

MCN Agency Business

100% Owned, sign contract celebrities and KOLs
Monetisation through commercial collaboration

Strategic Partnership with Fosun Fashion Group

The preferred one-stop marketing platform for all brands of Fosun Fashion Group

Established JV with HongkongLand Limited

Develop high-end real estate business

Source: Company Data

Celebrity livestreaming e-commerce

Since the second half of 2020, livestreaming e-commerce has emerged into a new sales channel in Mainland China, which stimulated an increasing number of brands to explore. In July 2021, Activation entered into strategic cooperation with Vision Future (Shanghai) Media Technology Co., Ltd. (“Vision Entertainment”), a leading agency of Douyin e-commerce, and established a joint venture (which Activation holds 51% majority shareholding) to explore the huge potential of livestreaming e-commerce business. The

cooperation is mainly to provide Douyin livestreaming e-commerce for stars and celebrities and Douyin store branding operation service for luxury and fashion labels. Combining the celebrities and brand resources of Activation as well as the extensive experience in livestreaming e-commerce of Vision Entertainment, the JV is committed to expand the online brand marketing and e-commerce in the Douyin market, and also cultivate Douyin Livestreaming e-commerce to introduce more famous artists and celebrities to join livestream e-commerce. As of Oct 2021, the JV has completed more than 20 star livestreaming sessions, resulting in the GMV of brands exceeding RMB412mn. This JV is expected to be profitable and contribute to the company’s revenue and profit growth.

Fig 6. Activation – Livestreaming e-commerce operations



Source: Company Data

MCN agency business

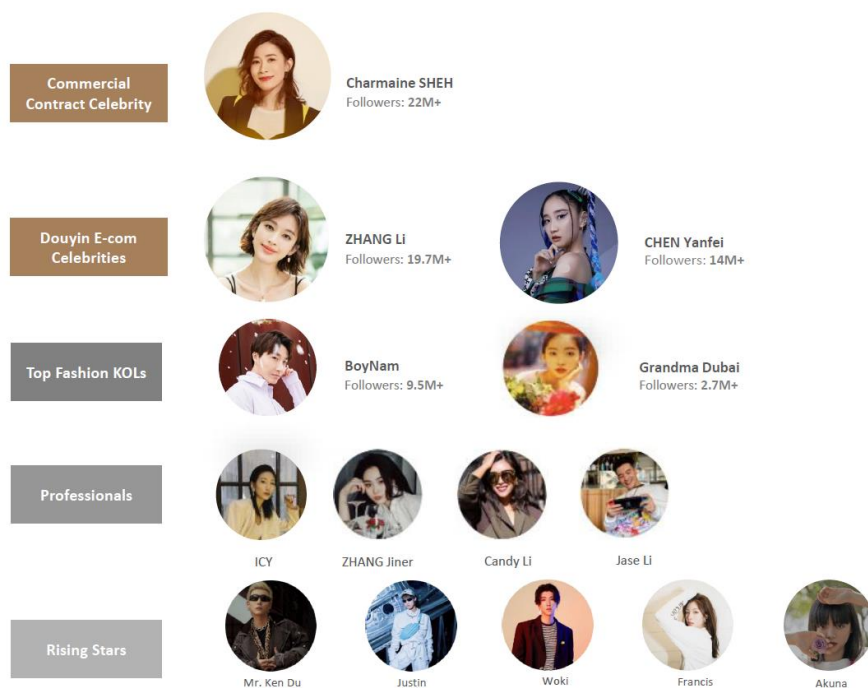
The pandemic has accelerated the digitalisation of business for Chinese brands. Brands have increased their budget in digital marketing, while many of them have opened stores on e-commerce platforms. The proportion of e-commerce channels in the total sales of brands has been increasing. Eyeing the opportunity, Activation increased its investment in digital marketing and e-commerce in the 1H21 with the addition of Multi-Channel Network (“MCN”) business and target media service.

Avant Plus is thus formed with a business focus on the fashion industry. The company has signed collaboration agreements with more than 10 key opinion leaders (“KOLs”) and celebrities in the fashion industry, including famous movie star Ms. Charmaine Sheh (佘诗曼), Douyin e-commerce celebrities like Zhang Li (张丽) and Chen Yanfei (陈彦妃), fashion blogger Boynam (江南) and fashion KOL Grandma Dubai (迪拜奶奶). With Activation’s brand resources and digital marketing solutions, the company has assisted KOLs and celebrities in building up their social media accounts, expanding their fan base, and supporting fashion labels in promotion and word-of-mouth marketing. For the target media service launched by the company in 2021, it has expanded digital services from content production to the media and advertising, helping its clients reach their target customers in different social media platforms.

The revenue model of Avant Plus:

- Fees from commercial activities;
- Fees from social media promotion.

Fig 7. Activation – Avant Plus - MCN Agency Business



Source: Company data

Strategic Partnership with Fosun Fashion Group

On 28 Apr 2021, Activation entered into a strategic alliance with Fosun Fashion Group (FFG), a subsidiary of Fosun International Limited (656 HK), to capitalise on the emerging demand for luxury brands in Mainland China. Activation would become the preferred marketing partner of FFG in Mainland China to explore the new business models and solutions for brand expansion.

Fig 8. Activation – Strategic alliance with Fosun Fashion Group

FOSUN FASHION
复星时尚

- One of the pioneers founded a global luxury fashion group in China
- Top ecosystem
- A comprehensive portfolio of traditional luxury fashion brands, including:

LANVIN WOLFFORD

sergio rossi ST. JOHN

CARUSO

Activation will be the preferred one-stop marketing platform for all brands under Fosun Fashion Group

Benefits:

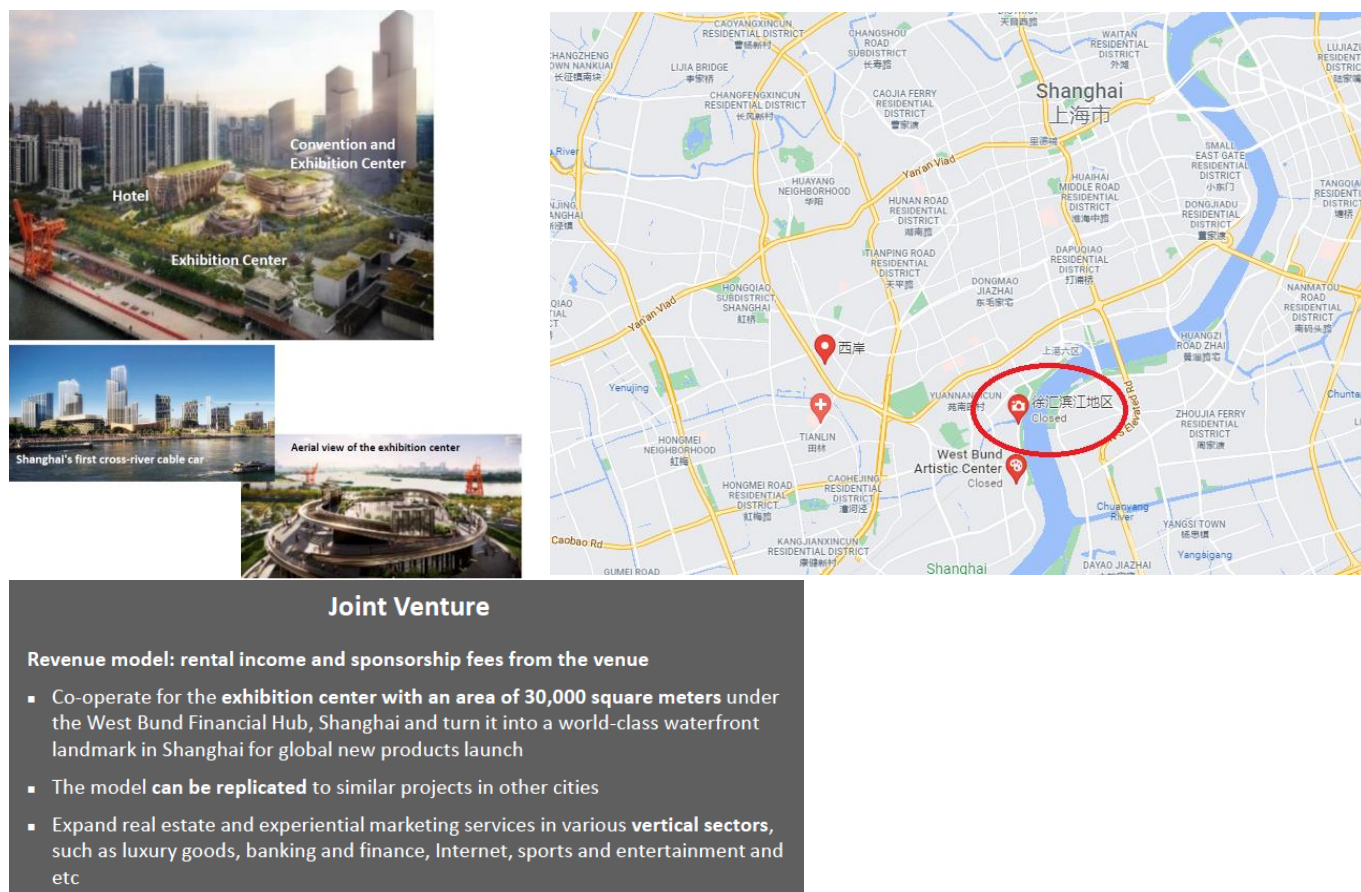
- **Expand brand customers**
Include the brands under Fosun Fashion in our customer portfolio
- **Resources and channels**
Leveraging Fosun’s industry resources to expand the Group’s business footprint
- **Cultivate new brands**
Jointly explore and incubate new brands with Fosun
- **Synergies**
Jointly explore other potential investment opportunities

Source: Company data

Established JV with HongkongLand for exhibition venues

Activation has established a JV with Hongkong Land Limited to jointly operate the exhibition venues in the latter’s West Bund Financial Hub in Xuhui District, Shanghai. The West Bund Financial Hub will be a world-class waterfront landmark in Shanghai, featuring fashion & art, technology & finance, health & wellness, urban luxury travel and other themes, and will be a premier product launch venue for brands from around the world.

Fig 9. Activation – JV with Hongkong Land



Source: Company data, Google map, China Tonghai Securities

IP Development Segment

Activation has ventured into the area of IP development with a focus on sports and entertainment. Although relatively new in the PRC, these IP development brands have global appearances and superb publicity effects. Since 2016, the company has started its IP development business for the sports market, where the company entered into a 10-year cooperation agreement with each of LaLiga and Amaury Sport Organisation. That grants Activation exclusive rights to organise authorised events with LaLiga Club brand and Le Tour de France brand and other rights for marketing, sponsorship, merchandising and other uses in Mainland China.

Fig 10. Activation – Selected IP development partners



Source: Company data

The management believes that coupling IP businesses with the company’s integrated marketing solutions segment will bring out massive business potential and will create many new business opportunities for the integrated marketing solutions segment. During 1H21, the company organised the 2021 Critérium Ride Race in Lin-gang, Shanghai, which attracted more than 2,000 riders.

Furthermore, Activation has entered into two business cooperation agreements on IP business: (i) cooperation agreement with FISE (the world famous X-games league under Hurricane Group) to develop the X-games matches/ground in Mainland China in 2021; and (ii) strategic partner agreement with Jiu Shi Sports Group (one of largest state-owned sports group which owned the exclusive right to Formula 1, ATP shanghai 1000, Shanghai Longines Global Champion Tour and other famous sports IP) to co-develop the IP owned by both parties in Mainland China.

INDUSTRY OVERVIEW

Activation is a leading interactive data performance marketing group for Pan-Fashion brands in Greater China. We believe its businesses would be benefited from the rapid growth of the following markets:

- The market size of livestreaming commerce was estimated to maintain its rapid growth and reach RMB4.9trn by 2023E (Statista).
- The total luxury goods consumption in Mainland China was estimated to maintain its rapid growth and reach US\$112.1bn by 2025E (Frost and Sullivan).
- The marketing budget was estimated to quickly rebound in 2021E and reach RMB39.8bn by 2023E (CIC).

Livestreaming e-commerce in Mainland China

In the beginning, livestreaming was not exclusively centred on selling. It was about creating interesting content and providing another way for Chinese consumers to 'explore the world'. As the ecosystem evolved, it became more sales-oriented due to various followers. In the past few years, more and more brands have started to leverage influencers and Key Opinion Leaders (KOLs) to drive traffic to sales. Increasingly, Key Opinion Consumers (KOCs) are being brought in to stimulate a conversation, brand awareness and sales. Starting from fashion, cosmetics, skincare, and lifestyle products, topics being discussed rapid expanded to industries across the board. It is now being used for an extensive range of applications, including communication, medical appointments, dating, customer service, and deliveries amongst many others.

Unlike in the western world, Chinese consumers are heavily dependent on word-of-mouth, resulting in the expansion of KOC marketing. Consumers want to listen to genuine reviews and are more inclined to trust 'regular individuals' than KOLs. For celebrities and KOLs/KOCs, livestreaming e-commerce would be one of the optimal ways to monetise their followers, compared to the advertising revenue split from the social platforms (e.g. YouTube) in the western world.

In 2020, the largest Chinese online marketplace Taobao announced c.RMB400bn of revenue from its live-streaming commerce business. While most Western internet users still associated livestreaming with gaming and entertainment, it had become a vastly used shopping channel among Chinese online shoppers. The number of livestreaming watchers in Mainland China hit c.616mn in 2020, and shopping-related content is listed as the most popular type among livestreaming watchers.

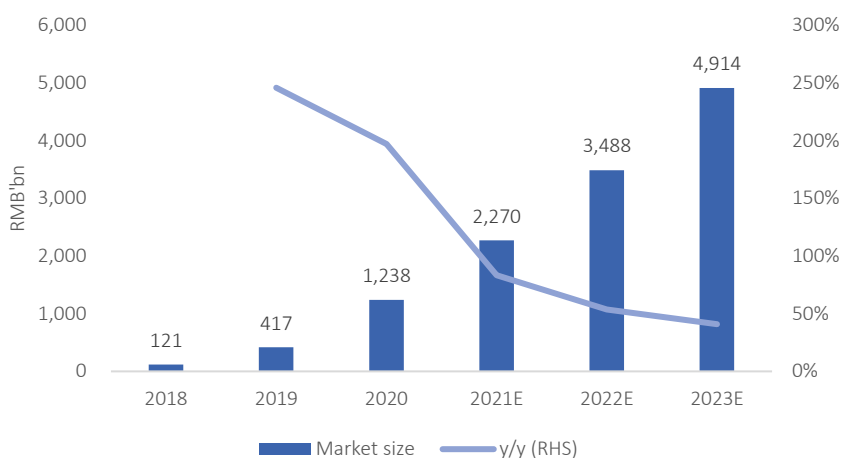
Livestreaming commerce was not only a rivalry between online retail giants. The short-video sharing unicorns, Douyin (known as Tik Tok globally) and Kuaishou, were also popular in the market. Bridging entertainment and online shopping, livestreaming has the huge potential to change the status quo and become the new norm for e-commerce in Mainland China.

Key drivers for the Chinese livestreaming e-commerce industry include:

- Wider usage of smartphones and development of communication technology
- Changing consumption patterns in prosperous industries
- Development of advanced technology

In 2020, the livestreaming e-commerce market in Mainland China reached about RMB1.2trn, soaring from RMB121bn in 2018. The market size of livestreaming commerce was estimated to maintain its rapid growth and reach RMB4.9trn by 2023E (Statista).

Fig 11. Mainland China livestreaming e-commerce market size



Source: Statista, China Tonghai Securities

Integrated marketing services for premium and luxury brands market in Greater China

Activation is a leading and fast-growing integrated marketing solutions provider who ranked first in the experiential marketing service for premium and luxury brands market in Greater China, accounted for a share of approximately 7.0% in 2020 (CIC). It is believed the rapid development of the luxury vehicle market encouraging luxury brand companies to use experiential marketing services. In addition, the contribution of beauty products awareness helps growth of the beauty product market.

In terms of the scale of experiential marketing services, experiential marketing services from premium and luxury brands consists of large-scale experiential marketing services, such as fashion show, new product launch events and etc. and small-scale experiential marketing services, such as pop-up events, livestreaming events and etc. Large scale experiential marketing services from premium and luxury brands in Greater China only can be conducted by the leading participants, due to their experiences, strong management capabilities, final delivery of high-quality and effective marketing solution services, and better control of production details during project execution.

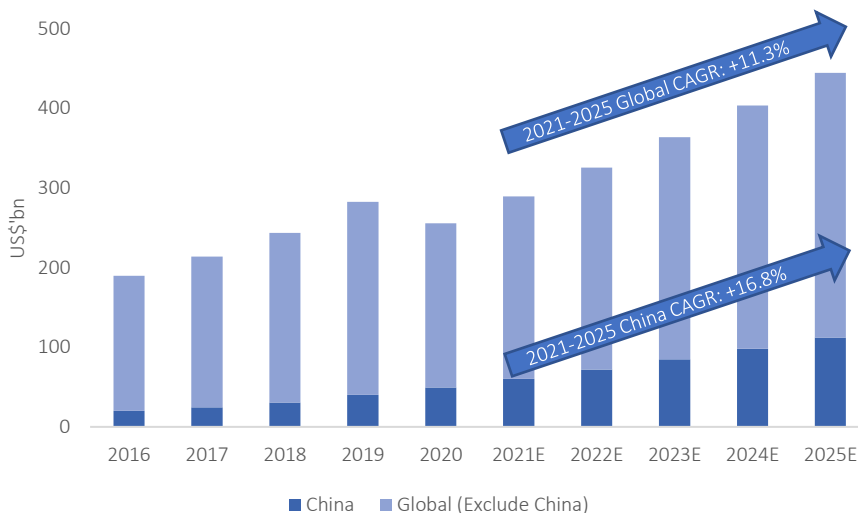
As there are approximately 10 players, the market of large-scale experiential marketing services from premium and luxury brands in the Greater China is relatively concentrated. In contrast to large scale experiential marketing services, the execution of small-to-medium scale experiential marketing services from premium and luxury brands can be conducted by hundreds of small-to-medium sized market participants in Greater China, considering the lower quality standards of the events execution and simple execution process. Hence, the market of small-to-medium scale experiential marketing services from premium and luxury brands in Greater China is fragmented.

Key drivers for the Chinese marketing services for premium and luxury brands market includes:

- Global consumer spending per capita continues to grow
- Consumption upgrades in developed and emerging markets
- Strong purchasing power from generation Z and millennials

In 2020, luxury goods consumption in Mainland China reached about US\$49.4bn, soaring from US\$20.3bn in 2016. The total luxury goods consumption in Mainland China was estimated to maintain its rapid growth and reach US\$112.1bn by 2025E (Frost and Sullivan).

Fig 12. China’s Luxury Goods Consumption



Source: Frost and Sullivan, China Tonghai Securities

In 2020, the marketing budget of Premium Brands in Greater China reached about RMB16.6bn, decreased from RMB28.6bn in 2019 due to the outbreak of COVID-19. The marketing budget was estimated to quickly rebound in 2021E and reach RMB39.8bn by 2023E (CIC).

Fig 13. Marketing Budget of Premium Brands in Greater China



Source: CIC, China Tonghai Securities

FINANCIAL ANALYSIS AND FORECASTS

We forecast Activation to post strong revenue growth (2020-23E CAGR of 50.5%), driven by increasing market share, robust growth of luxury consumption in Mainland China, and the new livestreaming e-commerce business initiative. Its attributable net profit will grow at 104.3% CAGR during the same period, as we believe the company can maintain tight control in its key operating margins.

Fig 14. Activation – Financial Summary, 2019-23E

RMB'mn	2019	2020	2021E	2022E	2023E
Revenue	662	458	946	1,258	1,561
<i>y/y</i>	-3.3%	-30.8%	106.5%	33.0%	24.1%
Gross margin	29.9%	28.7%	28.3%	29.3%	29.5%
Profit before tax	67	39	153	225	290
<i>y/y</i>	2.6%	-42.3%	297.5%	46.7%	28.9%
Attributable net profit	30	23	106	155	200
<i>y/y</i>	-19.1%	-21.8%	351.4%	46.7%	28.9%
Attributable net margin	4.5%	5.1%	11.2%	12.3%	12.8%

Source: Company Data, China Tonghai estimates

Revenue CAGR of 50.5% for 2020-23E

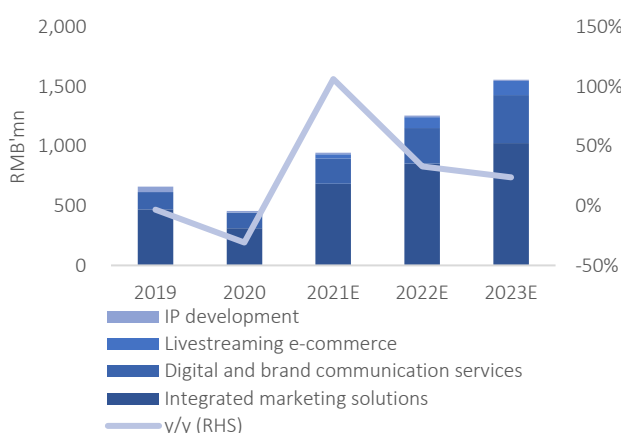
Activation mainly generates revenue from experiential marketing and digital and brand communication services. Backed by the increasing marketing budget of premium brands in Mainland China and the new livestreaming e-commerce business initiative, we forecast the total revenue to reach RMB1.6bn in 2023E, implying 2020-23E CAGR of 50.5%.

- Experiential Marketing Services:** Driven by (i) increasing global consumer spending per capita (ii) Consumption upgrades in developed and emerging markets, and (iii) strong purchasing power from generation Z and millennials, the marketing budget of premium brands in Greater China is expected to record a solid growth in 2020-23E. In addition, more fashion shows, largescale exhibitions, and new product launch events are expected to be held in the post-pandemic era. We expect the segment revenue CAGR of 48.9% in 2020-23E and reach RMB1.0bn in 2023E and account for 65.8% of the total revenue (vs. 68.0% in 2020).
- Digital and brand communication services (Excluding livestreaming e-commerce business):** Given that the pandemic has accelerated the digitalisation of business for Chinese brands, brands have increased their budget in digital marketing. In addition, we believe the new MCN business unit Avant Plus to increase the synergies for the company's resources and KOLs. We expect the segment revenue CAGR of 44.6% in 2020-23E, reach RMB403mn in 2023E and account for 25.8% of the total revenue (vs. 29.1% in 2020).

- Livestreaming e-commerce:** Since the company launched its Douyin livestreaming e-commerce business in Jul 2021, it has recorded a total GMV of RMB412mn as of Oct 2021. Given that Activation will continue to increase the celebrities and KOLs, as well as the product offerings in the near future, we expect the total GMV to be RMB1.5bn and 2.0bn in 2022E & 2023E, while the revenue contributed to Activation from the JV to be RMB117mn in 2023E, accounting for 7.5% of the total revenue.
- IP development:** We expect Activation to hold at least one event for its IP partners annually, and the service fee to be c.RMB13mn each. This segment is expected to have huge upside potential once the pandemic is eased.

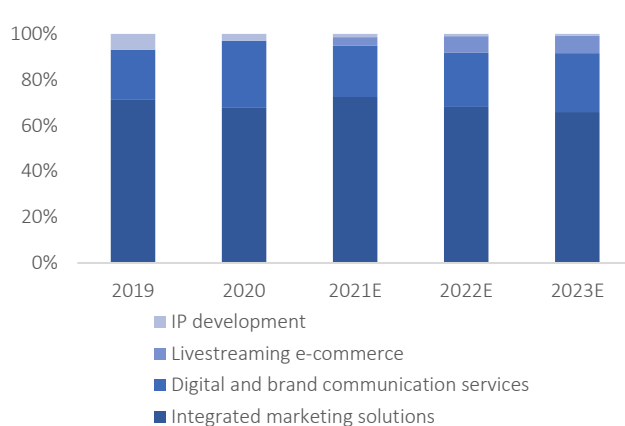
In terms of region revenue, Activation mainly generates its revenue from Mainland China (96.1% in 1H21). We believe the Mainland China market will continue to be the main focus for the company in 2021-23E.

Fig 15. Activation – Revenue by segment, 2019-23E



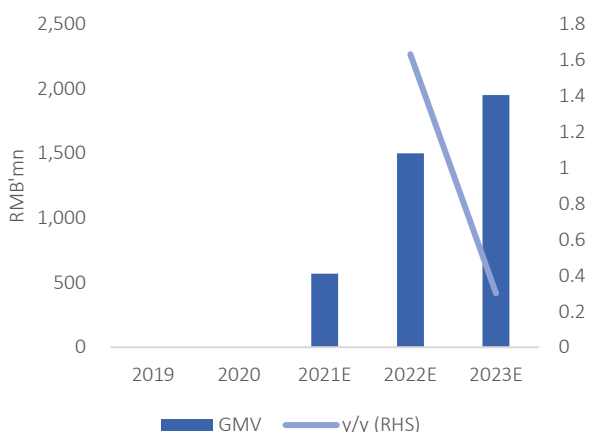
Source: Company data, China Tonghai estimates

Fig 16. Activation – Segment contribution, 2019-23E



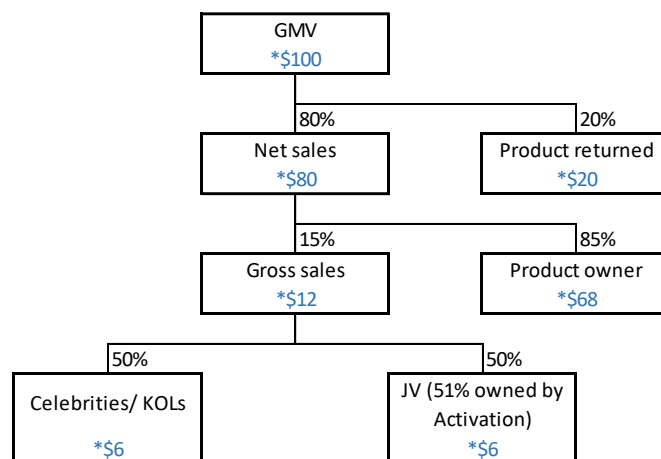
Source: Company data, China Tonghai estimates

Fig 17. Activation – Livestreaming e-commerce GMV



Source: Company data, China Tonghai estimates

Fig 18. Activation – Revenue model for livestreaming e-commerce business

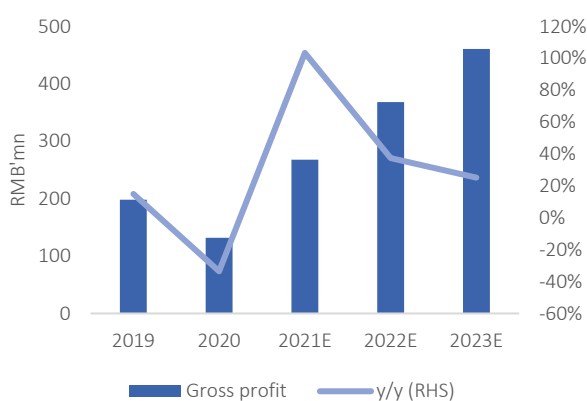


Source: Company data, China Tonghai estimates
*Flow model of every \$100 GMV recorded

Improving gross margin in 2021-23E

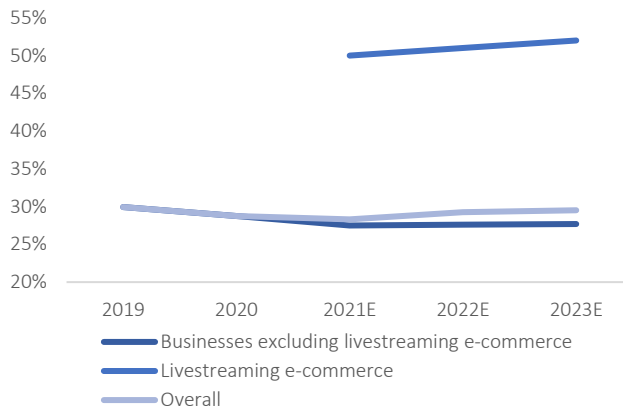
The historical gross margin stood at around 25%-30% given that the gross margin of Activation’s original businesses was relative stable. We expect its gross margin to be improved in the near future as the new livestreaming e-commerce business enjoys a higher margin. We forecast the overall gross margin for Activation to gradually increase to c.30% and its gross profit will rise steadily to RMB461mn in 2023E from RMB132mn in 2020, with a 3-yr CAGR of 51.8%.

Fig 19. Activation – Gross profit and y/y growth, 2019-2023E



Source: Company data, China Tonghai estimates

Fig 20. Activation – Gross margin, 2019-2023E

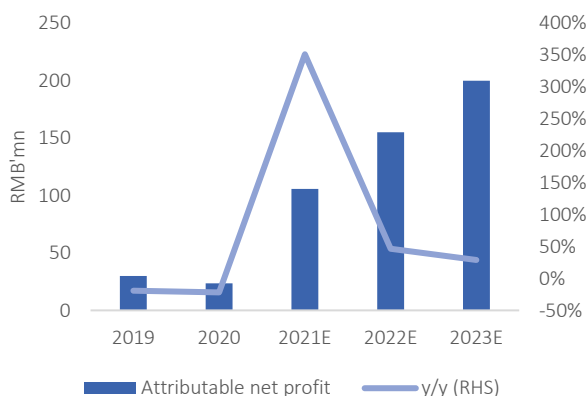


Source: Company data, China Tonghai estimates

Attributable net profit CAGR at 104% in 2020-23E

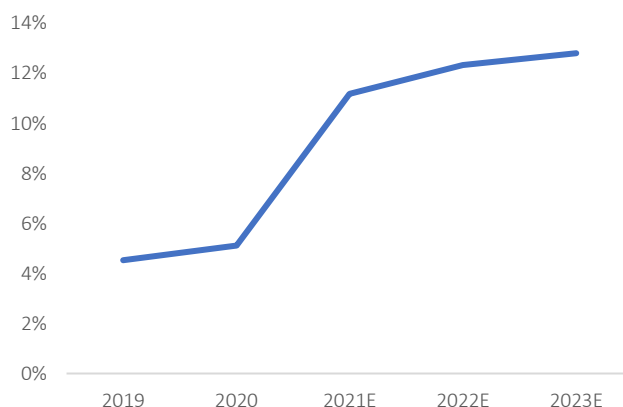
We expect its attributable net profit to record a CAGR of 104.3% in 2020-23E to RMB200mn, thanks to its significant growth in revenue and the improving operating cost to turnover ratios driven by the economy of scale. Its attributable net margin is expected to improve to 12.8% in 2023E from 5.1% in 2020.

Fig 21. Activation – Attributable net profit and y/y growth, 2019-2023E



Source: Company data, China Tonghai estimates

Fig 22. Activation – Attributable net margin, 2019-2023E

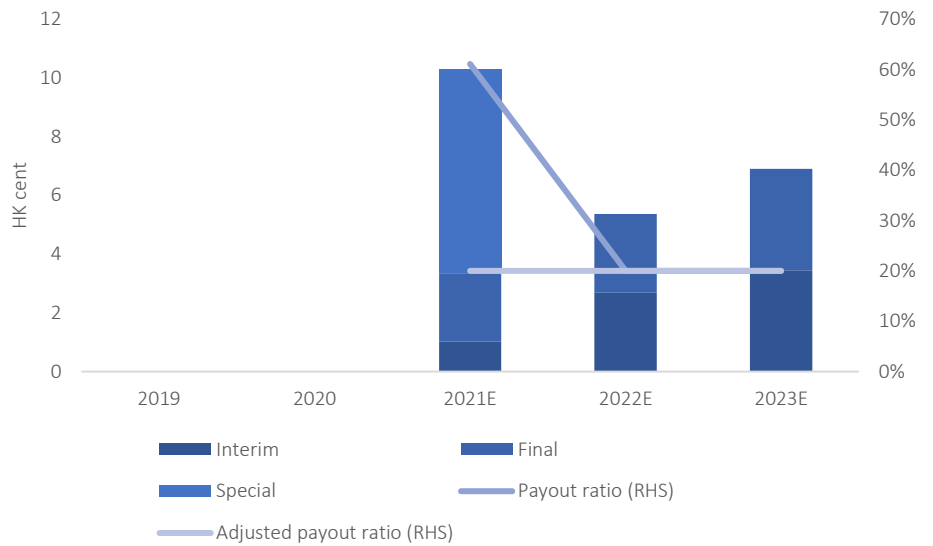


Source: Company data, China Tonghai estimates

Increasing dividend payment

We expect the company to gradually increase the dividend payout in the near future, thanks to the cash-rich financial position of c.HK\$3.8bn net cash on hand as at the end of 1H21 and solid operating cash flow. The annual dividend per share (excluding the special dividend in 1H21) is expected to increase to 6.36 HK cents in 2023E from 3.35 HK cents in 2021E, with the adjusted payout ratio maintained at 20% during the period.

Fig 23. Dividend per share and payout ratio, 2019-23E



Source: Company Data, China Tonghai estimates

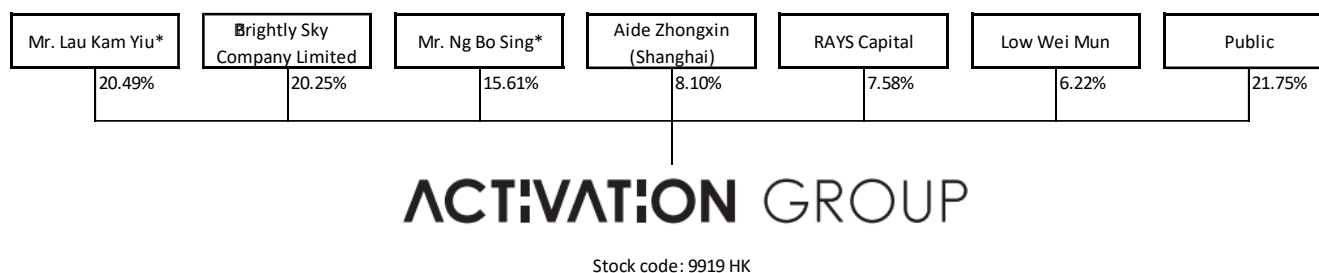
COMPANY PROFILE

Company background

Activation Group Holdings Limited is a leading interactive data performance marketing group for fashion brands in Greater China, offering experiential marketing, digital and brand communication, and public relations services, digital marketing, e-commerce services as well as IP operations, etc. It is the largest experiential marketing company serving luxury and trendy brands in Greater China, claiming a 7% share of the market. Its shares were listed on the Main Board of HKEx on 16 Jan 2020. All businesses of the company are driven by interactive data performance and the company has kept accelerating the comprehensive deployment of its digital marketing capability, including setting up the MCN organisation, providing effective marketing and livestreaming e-commerce services to brands, thereby build a closed loop – marketing to sales system.

Shareholding structure

Fig 24. Activation – Shareholding structure



Source: HKEx, as of 13 Jan 2022 close.

* Signed an AIC Confirmation

Management team

Fig 25. Activation – Management team

Name	Position/ Title	Responsibilities
Mr. Lau Kam Yiu (Steve)	Joint-Chairman & Chief Executive Officer	<ul style="list-style-type: none"> Responsible for the overall strategic development, and leading the business development of the Group. An executive Director since September 2019. He joined the Group in 2014 as the managing director of Activation Group. One of the Controlling Shareholders and a director of certain subsidiaries of the Group.
Mr. Ng Bo Sing (Johnny)	Joint-Chairman & Chief Operating Officer	<ul style="list-style-type: none"> Responsible for the overall strategic development, and leading the business operation of the Group. An executive Director since September 2019. Joined the Group in 2013 as the director of Activation Group. One of the Controlling Shareholders and a director of certain subsidiaries of the Group.
Ms. Low Wei Mun (Christine)	General Manager in Event BU	<ul style="list-style-type: none"> Responsible for the overall operation of experiential marketing business of the Group. An executive Director since September 2019. Has more than 19 years of experience in the marketing industry. Joined the Group in 2014 as the general manager of Activation Events.
Mr. Chan Wai Bun (Ben)	General Manager in Event BU	<ul style="list-style-type: none"> Responsible for the overall operation of experiential marketing business of the Group. Joined the Group in 2014 as the general manager of Activation Events. An executive Director since September 2019.
Ms. Zhou Qi (Kathy)	General Manager in Sport BU	<ul style="list-style-type: none"> Responsible for the overall operation of sports IP development services business of the Group. Has more than 20 years of experience in business development. Joined the Group in 2014 as the business development director
Mr. Bao Yifeng	General Manager in PR	<ul style="list-style-type: none"> Responsible for the overall operation of public relations services business of the Group. Has more than 16 years of experience in the marketing industry. Joined the Group in 2014 as the general manager of Activation PR.
Ms. Wong Nim Man (Jacqueline)	General Manager in PR and Digital BU	<ul style="list-style-type: none"> Responsible for the overall operation of digital communication and public relations services business of the Group. Has more than 21 years of experience in sales and marketing industry and joined the Group in 2014.
Mr. Choi Wai Tong (Winton)	General Manager in Digital BU	<ul style="list-style-type: none"> Responsible for the overall operation of digital communication and Big Data analysis services business of the Group. Has more than 22 years of experiences in project management. Joined the Group in 2014 as the general manager of Activation Digital.
Ms. Cheng Yuen Yee (June)	General Manager in Event BU, PRC HK & Singapore	<ul style="list-style-type: none"> Responsible for the overall operation of the experiential marketing business of the Group in Hong Kong and Singapore. Has more than 20 years of experience in event production industry. Joined the Group in 2014 as the general manager of Activation Events HK.
Mr. Jeremy Mark Shaw	General Manager in Event BU, PRC HK & Singapore	<ul style="list-style-type: none"> Responsible for the overall operation of the experiential marketing business of the Group in Hong Kong and Singapore. Joined the Group as the general manager of Activation Events HK in 2014. Has more than 21 years of experience in technical production management.

Source: Company data

APPENDIX

Activation Group (9919 HK)						Stock Rating: BUY							
Income statement (RMB'mn)		2019	2020	2021E	2022E	2023E	Per Share Items (HK cent)		2019	2020	2021E	2022E	2023E
Revenue		661.8	458.0	945.9	1,258.3	1,561.1	Adjusted diluted EPS		6.0	3.7	16.8	24.7	31.8
Marketing solutions		470.8	311.5	685.3	856.6	1,027.9	DPS		0.0	0.0	10.3	4.9	6.4
Digital services		145.7	133.3	213.2	298.5	403.0	BVPS		14.4	58.2	67.4	89.3	117.5
Livestreaming e-commerce		0.0	0.0	34.2	90.0	117.0	Ratio Analysis						
IP development		45.2	13.3	13.3	13.3	13.3			2019	2020	2021E	2022E	2023E
Cost of goods sold		(463.6)	(326.3)	(678.1)	(890.0)	(1,100.3)	Growth (YoY%)						
Gross profit		198.1	131.7	267.8	368.4	460.9	Revenue		(3.3)	(30.8)	106.5	33.0	24.1
Operating expenses		(145.1)	(102.7)	(122.0)	(148.5)	(178.0)	Gross profit		6.3	(42.1)	268.4	46.7	28.9
Other income, net		18.7	12.6	7.4	4.9	6.8	Attributable profit		(19.1)	(21.8)	351.4	46.7	28.9
EBIT		71.8	41.6	153.2	224.7	289.7	Diluted EPS		N/A	(38.9)	359.9	46.7	28.9
Finance costs		(4.5)	(2.5)	0.0	0.0	0.0	Margins						
Other gain or loss, net		(0.4)	(0.5)	0.0	0.0	0.0	Gross margin		29.9	28.7	28.3	29.3	29.5
Pre-tax profit		66.9	38.6	153.2	224.7	289.7	Operating margin		10.8	9.1	16.2	17.9	18.6
Tax		(26.0)	(13.3)	(38.3)	(56.2)	(72.4)	Attri. net margin		4.5	5.1	11.2	12.3	12.8
Minority Interest		10.9	1.8	9.2	13.5	17.4	Other ratios						
Attributable profits		30.0	23.4	105.7	155.1	199.9	Return on assets		10.7	5.3	18.6	23.3	24.2
Balance sheet (RMB'mn)							Return on equity		38.1	11.3	28.9	34.3	33.5
PPE		1.9	1.9	1.8	1.8	1.7	ROIC		20.4	6.3	25.0	27.7	27.1
Intangible assets		0.3	0.4	0.4	0.4	0.4	Dividend payout ratio		0.0	0.0	61.1	20.0	20.0
Other non-current assets		32.9	29.0	29.0	29.0	29.0	Net debt to equity		(75.9)	(81.3)	(81.0)	(85.7)	(87.8)
Inventories		0.0	0.0	0.0	0.0	0.0	Interest coverage (X)		15.9	16.5	N/A	N/A	N/A
Trade receivables		170.3	222.7	243.8	252.7	286.3	Valuation ratios						
Cash and equivalents		129.5	302.9	342.6	480.7	647.7	P/E (X)		28.4	46.4	10.1	6.9	5.3
Other current assets		24.9	31.7	31.7	31.7	31.7	P/B (x)		11.8	2.9	2.5	1.9	1.4
Total assets		359.7	588.6	649.3	796.2	996.8	Dividend yield (%)		0.0%	0.0%	6.0%	2.9%	3.7%
Long-term Borrowings		0.0	0.0	0.0	0.0	0.0	Key Operating Metrics						
Other non-current liabilities		13.5	9.4	9.4	9.4	9.4			2019	2020	2021E	2022E	2023E
Accounts payable		149.7	143.5	153.8	163.2	186.5	Revenue mix						
Short-term borrowings		74.8	0.0	0.0	0.0	0.0	Marketing solutions		71.1%	68.0%	72.4%	68.1%	65.8%
Other current liabilities		49.7	62.9	62.9	62.9	62.9	Digital services		22.0%	29.1%	22.5%	23.7%	25.8%
Total liabilities		287.7	215.8	226.1	235.5	258.8	e-Commerce		N/A	N/A	3.6%	7.2%	7.5%
Total shareholders' Equity		59.9	359.9	401.1	525.1	685.0	IP development		6.8%	2.9%	1.4%	1.1%	0.8%
Minority interests		12.1	12.9	22.1	35.6	53.0	Segment Growth						
Total equity		72.0	372.8	423.2	560.7	738.0	Marketing solutions		-8.5%	-33.8%	120.0%	25.0%	20.0%
Cash flow statement (RMB'mn)							Digital services		11.1%	-8.6%	60.0%	40.0%	35.0%
EBITDA		75.5	46.4	146.6	220.8	283.9	e-Commerce		N/A	N/A	N/A	163.2%	30.0%
Other gains, net		(2.9)	0.8	7.4	4.9	6.8	IP development		17.7%	-70.7%	0.0%	0.0%	0.0%
Change in working capital		58.3	(64.1)	(10.7)	0.5	(10.3)	e-Commerce						
Tax Paid		(25.4)	(12.2)	(38.3)	(56.2)	(72.4)	GMV (RMB'mn)		N/A	N/A	570	1,500	1,950
Operating cash flow		105.4	(29.1)	105.0	170.0	208.0							
Capex		(1.0)	(1.0)	(0.8)	(0.9)	(1.0)							
Others		(0.8)	11.6	0.0	0.0	0.0							
Investing cash flow		(1.9)	10.6	(0.8)	(0.9)	(1.0)							
Change in borrowings		55.8	(74.8)	0.0	0.0	0.0							
Interest paid		(3.3)	(1.6)	0.0	0.0	0.0							
Dividend paid		(40.6)	0.0	(64.6)	(31.0)	(40.0)							
Others		(75.9)	276.2	0.0	0.0	0.0							
Financing cash flow		(64.0)	199.7	(64.6)	(31.0)	(40.0)							
Net change in cash		39.5	181.2	39.6	138.1	167.0							
Free cash flow		104.4	(30.1)	104.2	169.1	207.0							

Source: Company data, China Tonghai estimates

Note: FY End Dec

Rating Definitions	Disclaimer and Risk Statement
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HOLD We expect the stock to have a total return of < 10% and >-10% over the next 12 months	
SELL We expect the stock to have a total return of < -10% over the next 12 months	
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