



中國通海證券  
CHINA TONGHAI SECURITIES

# Activation Group (9919 HK)

## 2022 results in-line; maintain BUY

Results Commentary

Activation Group (Activation) posted a reasonable set of 2022 results despite it has been affected by the pandemic outbreak in China. The company's business has demonstrated a strong rebound from a loss in the 1H22 to a profit in the 2H22, thanks to the increase in clients' demand for data interactive brand promotion following the relaxation of local government restrictions. For 2022, it reported a revenue of RMB694.8mn and an adjusted net profit of RMB54.4mn, ahead our expectation of RMB663.1mn and RMB44.4mn. A final dividend of 1.32 HK cents with a special dividend of 9.38 HK cents were declared, full-year payout stood at 22.7 HK cents (2021: 9.96 HK cents). We reiterate our positive view on Activation, on the back of its rich customer base and new business initiatives. We maintain our BUY rating and an unchanged TP of HK\$2.01 based on a 12x 2023E P/E, implying 71.8% upside potential.

**Reasonable 2022 results:** Its performance has been affected by the pandemic outbreak in China but has recorded a reasonable profit in 2022. Its revenue for FY2022 was RMB694.8mn (2021: RMB904.1mn). The decline in revenue is mainly due to the impact of the resurgence of the pandemic outbreak and lockdown of certain cities in the PRC during the 1H22 resulting in the cancellation or postponement of large-scale marketing activities, together with the restrictions on operations in Shanghai, where the headquarter of the company and most of its clients are located. Excluding some one-off items, it recorded an adjusted net profit of RMB54.5mn (2021: RMB92mn), which was 23% above our expectation.

### Experiential marketing business continued to be the main revenue contributor:

Despite the impact of the pandemic prevention and control measures in the PRC and Hong Kong in the 1H22, the company quickly resumed its activities in the 2H22 and completed 130 successful events in the PRC. As a result, more than 170 offline events were completed throughout 2022, including CHANEL 2022 Christmas Facade project, DIOR "Dior Haute Joaillerie" Event, GUCCI Beauty Pop-up, LOUIS VUITTON "Louis Vuitton Men's Spring-Summer 2023 Spin-off" Show, PRADA "Prada FW22 Menswear and Womenswear Fashion Show", ROLLS-ROYCE "2022 RRMC Phantom Series II Launch & Experience" Campaign, etc. During 2022, the revenue for experiential marketing business segment was down by 25.1% y/y to RMB513.9mn, and accounted for 74.0% of its total revenue. In 2022, several offline marketing events were livestreamed, which drew millions or hundreds of millions of views online. It is expected that this model will continue in 2023.

**Maintain Buy and HK\$2.01 TP:** We reiterate our BUY rating for Activation with unchanged TP of HK\$2.01 based on an 12x target P/E for 2023E. Despite the setback in 2022, we believe such valuation is justified as we believe normalization of the Chinese economy would sustain a recovery similar to that of 2021, backed by its rich customer base and the solid potential of its livestreaming e-commerce initiative. Following YTD share price expansion of 20.6% (vs. -1.09% for HSI), the shares currently trade at 6.7x 2023E P/E, which we see as attractive relative to its robust growth profile.

### Activation's Key Financials

(RMB'mn)	2021	2022	2023E	2024E	2025E
Revenue	904	695	1,039	1,221	1,406
Growth	97.4%	-23.1%	49.6%	17.4%	15.2%
Profit before tax	145	56	162	196	223
Growth	275.2%	-61.5%	190.2%	21.3%	13.6%
Attributable net profit	92	24	109	132	150
Growth	294.9%	-74.4%	361.6%	21.3%	13.6%
PER (x)	8.0	31.1	6.7	5.6	4.9
Dividend Yield	8.5%	19.4%	4.5%	5.4%	6.1%

Source: Company Data, China Tonghai estimates

Equity Research  
Digital Marketing

9 Mar 2023

Ticker	9919 HK
Stock Rating	BUY
Industry View	POSITIVE
Price Target (HK\$)	2.01
Price (22-Aug-2022)	HK\$ 1.17
Potential	71.8%
Upside/Downside	Upside
Market Cap (HK\$m)	871.3
Shares Outstanding (mn)	744.7
Free Float (%)	14.4
3M Avg Daily Turnover (HK\$m)	0.18

52 Week range HK\$ 0.84-1.31  
HSI 19,925



Source: Bloomberg

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**Livestreaming e-commerce business on track:** Since the pandemic outbreak in 2020, the budget for online marketing has substantially increased, creating an excellent opportunity for the digital marketing services industry. Activation has been providing data interactive services to its clients, generating viewerships through online platforms from experimental marketing services. It also tapped into livestreaming e-commerce business since 2H21, focusing on live-streaming e-commerce business on Douyin, with a total of 6 celebrities by the end of 2022. During 2022, it has launched a number of digital marketing campaigns, for instance, REMY MARTIN “Rémy Martin XO Online Social Campaign”, LAND ROVER “Above & Beyond” and NEW BALANCE “Performance Marketing Online Launch”. For 2022, the revenue of the digital and communication business was RMB154.4mn, representing a decrease of 23.5% y/y and accounted for 22.2% of the total revenue.

**IP Operation segment revenue up 62.6% y/y:** Despite the impact of the pandemic, Activation has successfully launched the first event – WDCC (2022 世界設計之都大會) and a series of Shanghai Design Week projects in the 2H22. Due to the effect of the pandemic, offline activities and events for LaLiga Club and Le Tour de France brands were temporarily suspended or postponed in 2022. During FY2022, the revenue for the IP development business was RMB26.5mn, representing an increase of 62.6% y/y, while the IP development business accounted for 3.8% of the total revenue in 2022. We expect those delayed and postponed events are likely to drive the IP operation segment growth in 2023E.

**Leading market share and expected solid recovery in 2023E:** Activation continues to be the largest experiential marketing service provider for premium and luxury brands in Greater China in 2022, with market share rising from 9.2% in 2021 to 10.0% in 2022. Looking ahead, the management is confident in the overall business operations in 2023. With the significant recovery of business in the 2H22 following the relaxation of local government restriction policies from the pandemic, we expect growth on luxury goods consumption will resume. It has obtained a number of marketing service projects from both global and domestic clients in PRC and Hong Kong which will be conducted in 2023. As the market leader of luxury experiential marketing service provider, with over 550 clients from international and local mid-to-high-end brands, we expect that luxury brands will resume large-scale advertising and promotional activities in China to capture opportunities after the re-opening. We expect the company to be fully recovered in 2023E, with strong revenue / earnings growth of 50% / 362% in FY23.

**Key downside risks:** 1) Failure to execute its strategic upgrades; 2) Changing in the macroeconomic conditions; 3) Regulation risk on livestreaming e-commerce.

#### Results VS Forecast

Fiscal Year Ended 31 Dec	2021		2022		2022	
	Reported	Reported	YoY	Forecast	Completion Rate	
<b>Revenue</b>	<b>904</b>	<b>695</b>	<b>-23%</b>	<b>663</b>	<b>105%</b>	
Gross profit	267	202	-24%	199	102%	
Attributable net profit	92	24	-74%	44	53%	
<b>Adj. net profit</b>	<b>92</b>	<b>55</b>	<b>-41%</b>	<b>44</b>	<b>123%</b>	

Source: Company Data, China Tonghai estimates

# FINANCIAL STATEMENTS

## Activation Group

Income statement (RMB'mn)	2021	2022	2023E	2024E	2025E	Cashflow statement (RMB'mn)	2021	2022E	2023E	2024E	2025E
<b>Revenue</b>	<b>904.1</b>	<b>694.8</b>	<b>1,039.3</b>	<b>1,220.6</b>	<b>1,406.4</b>	<b>EBITDA</b>	<b>153.6</b>	<b>51.4</b>	<b>142.7</b>	<b>177.3</b>	<b>204.2</b>
Cost of goods sold	(636.8)	(492.6)	(725.4)	(850.8)	(980.2)	Others	0.2	6.1	20.3	20.3	20.3
<b>Gross profit</b>	<b>267.3</b>	<b>202.2</b>	<b>313.9</b>	<b>369.9</b>	<b>426.1</b>	Change in working capital	55.5	(9.3)	65.3	(21.1)	55.2
Operating expenses	(128.5)	(152.1)	(172.5)	(194.1)	(223.6)	Tax paid	(33.9)	(27.5)	(40.4)	(49.0)	(55.7)
Other items, net	10.3	5.8	16.3	16.3	16.3	<b>Operating cash flow</b>	<b>175.4</b>	<b>20.7</b>	<b>187.9</b>	<b>127.4</b>	<b>224.0</b>
<b>EBIT</b>	<b>149.1</b>	<b>55.9</b>	<b>157.6</b>	<b>192.0</b>	<b>218.8</b>	Capex	(4.4)	(1.2)	(1.3)	(1.4)	(1.6)
Finance costs	(0.6)	(0.5)	0.0	0.0	0.0	Others	4.8	0.0	0.0	0.0	0.0
JV and associates	(3.8)	0.3	4.0	4.0	4.0	<b>Investing cash flow</b>	<b>0.3</b>	<b>(1.2)</b>	<b>(1.3)</b>	<b>(1.4)</b>	<b>(1.6)</b>
Pre-tax profit	144.6	55.7	161.6	196.0	222.8	Change in borrowings	0.0	0.0	0.0	0.0	0.0
Tax	(42.1)	(27.5)	(40.4)	(49.0)	(55.7)	Others	(68.9)	(123.9)	(32.7)	(39.7)	(45.1)
Minority Interest	10.1	4.6	12.1	14.7	16.7	<b>Financing cash flow</b>	<b>(68.9)</b>	<b>(123.9)</b>	<b>(32.7)</b>	<b>(39.7)</b>	<b>(45.1)</b>
<b>Attributable profits</b>	<b>92.5</b>	<b>23.6</b>	<b>109.1</b>	<b>132.3</b>	<b>150.4</b>	<b>Net change in cash</b>	<b>106.8</b>	<b>(104.4)</b>	<b>153.8</b>	<b>86.3</b>	<b>177.3</b>
Net profit	102.6	28.2	121.2	147.0	167.1	Free cash flow	170.9	19.5	186.6	126.0	222.4
<b>Per Share Items (HK cent)</b>	<b>2021</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>Ratio Analysis</b>	<b>2021</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
Diluted EPS	14.6	3.8	17.4	21.1	23.9	<b>Growth (YoY%)</b>					
DPS	10.0	22.7	5.2	6.3	7.2	Revenue	97.4	(23.1)	49.6	17.4	15.2
BVPS	67.9	56.3	70.3	87.4	106.8	EBIT	258.4	(62.5)	181.9	21.8	13.9
<b>Balance sheet (RMB'mn)</b>	<b>2021</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	Attributable profit	294.9	(74.4)	361.6	21.3	13.6
PPE	5.3	6.4	5.2	5.1	5.0	Diluted EPS	310.2	(74.3)	361.6	21.3	13.6
Intangible assets	0.4	0.3	0.3	0.3	0.3	<b>Margins (%)</b>					
Other non-current assets	19.8	19.7	19.7	19.7	19.7	Gross profit margin	29.6	29.1	30.2	30.3	30.3
Inventories	0.0	0.0	0.0	1.0	1.0	EBIT margin	16.5	8.0	15.2	15.7	15.6
Trade receivables	231.7	308.9	260.6	274.4	265.0	Net profit margin	10.2	3.4	10.5	0.0	0.0
Cash and equivalents	405.8	300.3	455.3	541.6	718.9	<b>Other ratios (%)</b>					
Other current assets	33.2	16.2	16.2	16.2	16.2	Return on assets	15.7	4.0	15.9	17.0	16.7
<b>Total assets</b>	<b>696.2</b>	<b>651.8</b>	<b>757.4</b>	<b>858.4</b>	<b>1,026.2</b>	Return on equity	25.6	7.2	30.5	29.7	27.4
Long-term borrowings	0.0	0.0	0.0	1.0	1.0	ROIC	21.5	6.7	24.7	24.0	22.4
Other non-current liabilities	7.5	9.9	9.9	9.9	9.9	Net debt to equity	(94.5)	(84.9)	(103.0)	(98.4)	(106.9)
Accounts payable	221.8	289.6	306.7	299.4	345.2	Interest coverage (x)	243.2	106.3	N/A	N/A	N/A
Short-term borrowings	0.0	0.0	0.0	0.0	0.0	<b>Valuation measures ratios</b>					
Other current liabilities	57.6	58.1	58.1	58.1	58.1	PER (x)	8.0	31.1	6.7	5.6	4.9
<b>Total liabilities</b>	<b>286.8</b>	<b>357.7</b>	<b>374.7</b>	<b>368.4</b>	<b>414.2</b>	PBR (x)	1.7	2.1	1.7	1.3	1.1
Total shareholders' equity	406.3	336.3	412.7	505.3	610.6	Dividend yield (%)	8.5%	19.4%	4.5%	5.4%	6.1%
Minority interests	23.1	17.3	29.4	44.1	60.8						
<b>Total equity</b>	<b>429.4</b>	<b>353.6</b>	<b>442.1</b>	<b>549.4</b>	<b>671.4</b>						

Source: Company Data, China Tonghai estimates

Note: FY End 31 Dec

<b>Rating Definitions</b>	<b>Disclaimer and Risk Statement</b>
<b>BUY</b> We expect the stock to have a total return of > 10% over the next 12 months	This document is published by China Tonghai Securities Limited ("Tonghai Securities"), a licensed corporation (central entity number AAC577) regulated by the Securities and Futures Commission in Hong Kong. This document is for distribution in Hong Kong. This document is not intended for distribution to or use by, any person or entity who is a citizen or resident of any jurisdiction where such distribution or use would be contrary to applicable law or regulation within such jurisdiction. This document does not constitute an offer or a solicitation of an offer to buy or sell any securities. This document is circulated to addresses solely and may not be reproduced or redistributed to any other person or published, in whole or in part, for any purpose. Tonghai Securities has not been in an investment banking relationship with the issuer within the preceding 12 months from the date of publication of this document. The research is based on information obtained from sources believed to be reliable, but Tonghai Securities does not make any representation or warranty as to its accuracy, completeness or correctness. Opinions expressed are subject to change without prior notice. Any recommendation does not have regard to specific investment objectives, financial situation and particular needs of any specific addressee. Tonghai Securities accepts no liability whatsoever for any direct or consequential loss arising from any use of this document. Tonghai Securities and its affiliates as well as persons associated with any of them from time to time may or may not have interests in the securities mentioned in this document. The prices of securities may move up or down, and past performance is not an indication of future performance. Investors shall consider seeking separate legal or financial advice before making investment decisions.
<b>HOLD</b> We expect the stock to have a total return of < 10% and >-10% over the next 12 months	
<b>SELL</b> We expect the stock to have a total return of < -10% over the next 12 months	
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