

COMPANY UPDATE

B.Duck Semk Holdings (2250 HK)

Vertical And Horizontal Expansion To Bolster Growth Going Forward

After a tough 1H22, SEMK's earnings recovered sequentially in 2H22 as expected thanks to stringent cost controls, while reported net profit was helped by one-off items. Business may remain challenging in 2023 due to a tough macro environment, but the company is actively seeking both vertical and horizontal investments to bolster its IP portfolio and exposure, and its efforts may come to fruition from 2024 onwards. Maintain BUY and raise target price to HK\$1.81.

WHAT'S NEW

2H22 RESULTS

Year to 31 Dec (Rmbm)	2H21	1H22	2H22	yoy % chg	qoq % chg	2021	2022	yoy % chg
Revenue	166	92	101	(39.3)	10.0	290	193	(33.6)
Character licensing	108	49	75	(30.3)	54.1	167	124	(25.7)
E-commerce and other	59	43	26	(56.0)	(40.0)	123	69	(44.2)
Gross profit	137	69	79	(42.2)	14.2	233	149	(36.3)
Operating Profit	57	(16)	96	68.8	n.a.	84	79	(6.4)
Net Profit	45	(19)	94	106.8	n.a.	63	76	20.0
GPM (%)	82.5	75.6	78.5	(3.9)	2.9	80.4	77.2	(3.3)
OPM (%)	34.3	(17.9)	95.5	61.2	113.4	29.1	41.1	11.9
NPM (%)	27.4	(20.2)	93.3	65.9	113.5	21.7	39.2	17.5

Source: SEMK, UOB Kay Hian

- **Net profit beat on one-off items.** B.Duck Semk's (SEMK) 2022 revenue was down 33.6% yoy to HK\$193m, below our estimates of HK\$216m, as the licensing service business and ecommerce business both missed our estimates. Gross margin also missed our estimates at 36.1% due to a lower operating scale, while opex of HK\$165m was slightly below our estimates of HK\$172m. However, SEMK's bottom line was helped by the sale of the Bath'N Duck trademark to a third party. This generated sales of HK\$88m which was recognised in 2022. Eliminating all the expenses, this boosted SEMK's operating profit by HK\$83m, and net profit by ~HK\$75m according to our estimates. Stripping this off, SEMK's reported net profit would barely break even, which is much closer to our estimates of HK\$4m and implied a ~HK\$19m net profit in 2H22 (vs a net loss of HK\$18m in 1H22).
- **Ytd sales still remained sluggish.** Management stated that consumption after China's reopening remained sluggish and sales were down ~15% ytd so far. We believe that sales may normalise to pre-lockdown levels going forward, although a significant recovery is not likely in the near term given the sluggish domestic economy. This is especially the case for SEMK as its key IP B.Duck is targeted towards the parent/infant group.

KEY FINANCIALS

Year to 31 Dec (HK\$m)	2021	2022	2023F	2024F	2025F
Net turnover	290	193	227	278	344
EBITDA	97	8	69	110	156
Net profit (rep./act.)	63	76	57	91	130
Net profit (adj.)	77	87	57	91	130
EPS (Fen)	8.9	8.8	5.8	9.2	13.2
PE (x)	17.9	18.1	27.6	17.4	12.1
P/B (x)	10.6	4.6	3.8	3.1	2.4
EV/EBITDA (x)	13.6	161.2	19	12	8.5
Dividend yield (%)	2.7	1.1	0.8	1.3	2.7
Net margin (%)	21.7	39.2	25.3	32.7	37.9
Net debt/(cash) to equity (%)	(24.8)	(40.3)	(64.2)	(47.3)	(68.3)
Interest cover (x)	55.6	10.3	69.4	66.9	117.4
ROE (%)	52.8	30.1	14.8	19.2	22.0

Source: Semk, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$1.60
Target Price	HK\$1.81
Upside	+13.1%
(Previous TP)	HK\$1.63

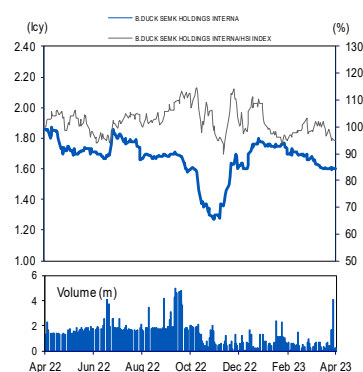
COMPANY DESCRIPTION

B.Duck Semk Holdings engages in the creation, design, licensing, brand management and marketing of its self-created and self-owned B.Duck family of characters across multiple channels. The character IP company conducts businesses in China and overseas.

STOCK DATA

GICS sector	Toys & Games			
Bloomberg ticker:	2250 HK			
Shares issued (m):	1,000.0			
Market cap (HK\$m):	1,590			
Market cap (US\$m):	202.5			
3-mth avg daily t'over (US\$m):	0.1			
Price Performance (%)				
52-week high/low	HK\$1.87/HK\$1.27			
1mth	3mth	6mth	1yr	YTD
(4.2)	(10.1)	0.6	(13.0)	(10.1)
Major Shareholders				
HUI Ha Lam				66.32
-				-
-				-
FY23 NAV/Share (HK\$)				0.43
FY23 Net Cash/Share (HK\$)				0.27

PRICE CHART



Source: Bloomberg

ANALYST(S)

Johnny Yum
 +852 2236 6706
 johnny.yum@uobkayhian.com.hk

Ariel Poh
 +603 2147 1986
 yunli@uobkayhian.com

STOCK IMPACT

- **SEMK is looking for investments and M&A opportunities for upstream/downstream integration.** In order to increase its IPs' exposure, SEMK is now looking to: a) strengthen its internal product development especially in areas SEMK previously had less exposure in, such as stationary and 3C products, b) invest in companies with IP resources and product design capabilities which can help SEMK expand its IP portfolio and reach, c) invest and cooperate with gaming developers to develop games that utilise the B.Duck IPs, and d) invests in retail brands such that SEMK can utilise its IPs through a wider range of platforms.

For the M&A strategy, SEMK is looking at targets with established sales channels that can help SEMK market its products to a broader range of audiences (vs its current customer base consisting mainly of parents and infants), especially in the teenage age group, while also helping SEMK improve its ecommerce business' operating efficiency and profitability (the business was operating at a loss in 2021-22).

SEMK is also looking to accelerate the expansion of its location base entertainment (LBE) after China's reopening, and sees strong growth opportunities from events such as carnivals and theme parks as domestic travelling resumes.

- **Exploring overseas opportunities through JVs in Thailand.** SEMK established B.Duck Thailand, a JV with Thailand's BTS group last year, in order to market its IP in the SEA market. However, we believe more time is required before SEMK can find success in the SEA market as the company will need time to adjust its designs according to the local market's preferences.
- **Management targets to grow its revenue by 5x to HK\$1b in three years,** primarily through M&As. SEMK is now targeting to complete one major M&A deal per year through 2023-25. The M&As will be financed by a combination of equity financing, cash at hand, and debt financing.

EARNINGS REVISION/RISK

- **We trim our 2023 net profit estimates by 14.7% to HK\$57m, but raise our 2024 net profit estimates by 14.9% to HK\$91m.** We trim our 2023 net profit forecast given a slower-than-expected recovery of consumption, which in turn impacted its operating scale and gross margins. However, we expect the recovery to kick in from 2024, while the earlier investments by SEMK to expand its reach should start bearing fruit. We introduce our 2025 net profit estimates of HK\$130m. Note that we have not factored in any major M&As into our estimates yet.

VALUATION/RECOMMENDATION

- **We maintain BUY and raise our target price to HK\$1.81.** Our target price is now based on 2023 earnings and SOTP valuation. For the licensing business, we raise our target multiple to 32x, which is 0.5SD below pre-COVID-19 forward PE of its closest peers (Sanrio and Alpha Group). This compares to our previous multiple of 25x, as we now expect SEMK's business to recover from 2023 onwards. For SEMK's e-commerce business, our 7x target forward PE remains unchanged.

SHARE PRICE CATALYST/RISKS

- **Risks:** a) M&A progress worse than expected, and b) continued decline in China's birth rate.
- **Catalysts:** Announcement of key M&A targets.

SOTP VALUATION

	PE Multiple (x)	Net profit (HK\$m)	Value (HK\$m)	Value per share (HK\$)
Character licensing Business	32.0	56.2	1,797	1.80
E-commerce business	7.0	1.1	8.0	0.01
Total		57.3	1,805	1.81
Target Price				1.81

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (HK\$m)	2022	2023F	2024F	2025F
Net turnover	193	227	278	344
EBITDA	8	69	110	156
Deprec. & amort.	11	18	25	32
EBIT	(3)	52	85	123
Total other non-operating income	96	10	12	15
Net interest income/(expense)	(1)	(1)	(2)	(1)
Pre-tax profit	79	60	95	136
Tax	(4)	(3)	(4)	(6)
Net profit	76	57	91	130
Net profit (adj.)	87	57	91	130

BALANCE SHEET

Year to 31 Dec (HK\$m)	2022	2023F	2024F	2025F
Fixed assets	6	39	53	61
Other LT assets	89	90	93	95
Cash/ST investment	142	323	297	501
Other current assets	176	75	189	106
Total assets	413	526	633	762
ST debt	0	50	50	50
Other current liabilities	52	42	51	43
LT debt	0	0	0	0
Other LT liabilities	9	9	9	9
Shareholders' equity	351	425	522	660
Total liabilities & equity	413	526	633	762

CASH FLOW

Year to 31 Dec (HK\$m)	2022	2023F	2024F	2025F
Operating	81	172	17	246
Pre-tax profit	79	60	95	136
Tax	(4)	(3)	(4)	(6)
Deprec. & amort.	12	18	25	32
Associates	0	0	0	0
Working capital changes	(27)	35	(47)	29
Non-cash items	15	3	4	5
Other operating cashflows	5	59	(56)	49
Investing	(28)	(39)	(40)	(40)
Capex (growth)	(30)	(40)	(41)	(41)
Proceeds from sale of assets	2	0	0	0
Others	0	1	1	1
Financing	12	48	(3)	(3)
Dividend payments	(48)	0	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	0	0	0	0
Others/interest paid	60	48	(3)	(3)
Net cash inflow (outflow)	65	181	(26)	204
Beginning cash & cash equivalent	76	142	323	297
Changes due to forex impact	1	0	0	0
Ending cash & cash equivalent	142	323	297	501

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	4.2	30.6	39.6	45.2
Pre-tax margin	41.1	26.4	34.2	39.6
Net margin	39.2	25.3	32.7	37.9
ROA	22.3	12.2	15.7	18.7
ROE	30.1	14.8	19.2	22.0
Growth				
Turnover	(33.6)	17.7	22.4	24.0
EBITDA	(91.5)	749.6	58.2	41.5
Pre-tax profit	(4.4)	(24.1)	58.4	43.5
Net profit	20.0	(24.1)	58.4	43.5
Net profit (adj.)	13.1	(34.4)	58.4	43.5
EPS	(1.1)	(34.4)	58.4	43.5
Leverage				
Debt to total capital	0.0	10.5	8.7	7.0
Debt to equity	0.0	11.8	9.6	7.6
Net debt/(cash) to equity	(40.3)	(64.2)	(47.3)	(68.3)

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK has received compensation from B.Duck Semk Holdings (2250 HK) in the preceding 12 months. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2023, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W