

Crazy Sports (82.HK)

Proxy to fast expanding sports entertainment market in China



京基證券集團
KINGKEY SECURITIES GROUP

- Government aimed to build a CNY5.0b worth of sports industries by 2025 and forge the nation into global sports superpower by 2035. As distinctive O+O (Online plus Offline) sports entertainment provider, Crazy Sports is well-posted to monetize from the expanding sports industries that is strongly supported by the state.
- Crazy Sports operates a vast and consolidated digital sports entertainment platform providing paid sports information contents, live-streaming and social media, sports quizzing games and offline lottery sports retail services. In addition, the group develops and operates series of sports adopting international IPs and leisure mobile games.
- Recent catalysts in Crazy Sports' fundamentals include Beijing Winter Olympics 2022 and FIFA World Cup Qatar 2022, launching of sports quizzing platform and blockbuster mobile game, and expansion in sports lottery POS network.
- Number of its total users and monthly average users at its platform surged 63.0% YoY and 275.0% YoY, respectively, to 38.9m and 2.6m for 1H FY21E. We expect the group to acquire more new users in 2H FY21E.
- Bottom line returned to positive territory for 1H FY21E and reported net earnings of HK\$62.0m, against loss of HK\$16.4m reported for 1H FY20A.
- Earnings forecasts for FY21E and FY22F are revised up by 1.2% and 4.2%, respectively.
- We revise Crazy Sport's SOTP-based target price up by 26.5% to HK\$2.53 and reiterate our BUY call on Crazy Sports.

General Information

Rating	BUY
Target Price	2.53
Current Close (Sept 20)	0.43
Total shares (m)	4,526.1
Mkt Cap.(HK\$ m)	1,946.2
Major Shareholders	Zhang Lijun (22.9%)
Industry	Internet
Publish Date	21 Sept 2021

Financial Information

HK\$	FY20A	FY21E	FY22F	FY23F
Revenue(m)	300.8	618.8	1,188.0	1,714.5
Change(%)	61.7	105.7	92.0	44.3
Net Profit(m)	(131.3)	128.0	257.9	453.7
Change(%)	-	-	101.5	75.9
Core Profit (m)	68.5	128.0	257.9	453.7
GPM (%)	43.5	43.4	47.0	49.8
EPS(HK\$)	(0.03)	0.03	0.06	0.10
P/E(X)	-	15.2	7.5	4.3
P/B(X)	2.3	1.8	1.4	1.1
ROA(%)	(11.1)	9.3	15.8	21.8
ROE(%)	(15.2)	11.7	19.1	25.1



Investment Summary

Thanks for the illustrious performance of our athletes, Mainland China won 88 medals at Tokyo Olympics 2022, making our nation the 2nd among 206 competing countries. Under the “14th Development Plan and Vision to 2035”, government stated its goal of forging the nation into global sports superpower by 2035. Value of sports industries in Mainland had increased at CAGR of 14.8% for 2015-2019 and attained CNY2.9 trillion. Government planned to expand value of the sports industries to CNY5.0 trillion by 2025. Series of measures and initiatives are expected to be introduced by government to support the development of sports industry, implying more opportunities are opened for Crazy Sports to capitalize the expanding sports entertainment market for monetization and profit.

As distinctive O+O sports entertainment provider in Mainland, Crazy Sports’ unique ecosystem covering the provision of paid sports information, sports themed live-streaming and social media, sports-themed mobile games, sports quizzing platform and offline sports lottery retailing. High scalability of its platform allowing it to introduce new features and products promptly to cater for evolving and expanding market.

Crazy Sports saw number of its total users and monthly average users surged 63.0% YoY and 275.0% YoY, respectively, to 38.9m and 2.6m for 1H FY21E, thanks to the resumption of sports leagues. Given the hosting of UEFA Euro 2020 and Tokyo Olympic 2020 which had aroused people interests in sports, growth in Crazy Sports’ user acquisition for 2H FY21E is anticipated to remain strong. The roll-out of sports quizzing platform based in Hainan, “Fantasy Sports Event Platform” is expected to facilitate user acquisition in 2H FY21E too. Afterall, Crazy Sports is sitting on database of 200.0m sports fans which had been accumulated over the operating history of 20 years.

Thanks to strong organic growth and margin expansion in its core sports entertainment businesses, and divestment of its loss-making e-commerce, tele-media and satellite TV businesses, Crazy Sports resumed profit for 1H FY21E by reporting a net earnings of HK\$62.0m, against loss of HK\$16.4m reported for the corresponding period last year.

Taking the group’s recent earnings-accretive moves and positive developments in operating environment into accounts, we revise up FY21E revenue and net earnings projections by 16.9% and 1.2%, respectively, to HK\$618.8m and HK\$128.0m. As Beijing Winter Olympic 2022 and FIFA World Cup Qatar 2022 are around the corner, outlook for Crazy Sports’ earnings is very positive. We revise up FY22F revenue and net earnings forecasts by 33.6% and 4.2%, respectively, to HK\$1,188.0m and HK\$257.9m. We revise Crazy Sport’s SOTP-based target price up by 26.5% to HK\$2.53 and reiterate our BUY call on Crazy Sports.

Resumed profitable

- Driven by the stunning growth in revenue generated from its core sports entertainment businesses, Crazy Sports’ revenue increased 58.0% YoY to HK\$229.0m for 1H FY21E. Amid its business segments, revenue generated from its paid sports information platform and sports social interactive platform and commission income concerning lottery sales surged by 505.6% YoY, 57.1% and 888.4% YoY, respectively.
- Due to the increment in revenue contribution from paid sports information segment (29.7% for 1H FY21E against 7.7% for the corresponding period FY20A) with above average GPM, Crazy Sports saw its blended margin expanded by 2.7 ppts to 45.3% and managed to grow its gross profit by 67.9% YoY to HK\$103.7m for 1H FY21E.



- Thanks to increase in revenue from sports entertainment businesses, GPM expansion, divestment gains of HK\$28.5m realized upon disposal of NASDAQ-listed financial assets and disposal of subsidiaries; as well as realization of dividend income of HK\$10.0m payable by CATV Fund, Crazy Sports returned to profit for 1H FY21E and reported net earnings attributable to shareholder of HK\$62.0m.

Earnings forecasts recalibrated upward

- Crazy Sports saw decent increase in number of newly registered users and MAU at its paid sports information platform during the months of UEFA Euro 2020 and Tokyo Olympic 2020. Users' stickiness to its platforms has been beefed up. Its soccer mobile game "Ace Soccer" which was launched in June 2021 has been blockbuster amid gamers and soccer fans. We also expect that the roll-out of sports quiz game platform, "Fantasy Sports Events Platform" in 2H FY21E would be conducive in user acquisition and monetization at its platform. Not to mentioned that following the divestment of loss-making tele-media and e-commerce businesses and CATV in December 2020, the group no longer assume loss incurred by the former discontinued business segments.
- Taking the group's recent earnings-accretive moves and positive developments in operating environment into accounts, we revise up FY21E revenue and net earnings projections by 16.9% and 1.2%, respectively. "Fantasy Sports Events Platform" and FIFA World Cup Qatar 2022 are conducive in user acquisition and monetization at Crazy Sport's sports entertainment platform for FY2022F. Thus, we revise up FY22F revenue and net earnings forecasts by 33.6% and 4.2%, respectively. We also introduce our earnings forecast for FY23F.

Target price revised up

- We revise Crazy Sport's SOTP-based target price up by 26.5% to HK\$2.53. Assuming a discount rate of 12.0% and exit EBITDA multiples of 6.9x for FY26F, we arrive DCF valuation for Crazy Sport's sports entertainment platform at HK\$10.8b/HK\$2.4 per share. We adopt book values of other assets as of the end of June 2021 in our SOTP valuation model. We reiterate our BUY call on Crazy Sports.

DCF for sports and entertainment businesses

HK(Mil)	FY21E	FY22F	FY23F	FY24F	FY25F	FY26F	Exit
EBITDA	151.5	343.4	604.2	810.9	886.3	1,289.5	
Change in working capital	(78.9)	0.4	(40.0)	3.4	3.0	0.0	
CAPEX	(31.2)	(111.4)	(116.0)	(121.6)	(128.0)	(84.2)	
FCF	41.4	232.4	448.1	692.7	761.3	1,205.3	
DCF	36.9	185.3	319.0	440.2	432.0	610.6	8,832.8
Discount rate	(%)	12.0					
Exit Multiple	(x)	6.9					
Valuation	(HK\$m)	10,856.8					
Value/share	HK\$	2.40					

Sources: KKSG's projection



SOPT valuation

Crazy Sports	DCFV	(HK\$m)	10,856.8
45.5% interests in BOA	BV	(HK\$m)	6.5
Financial assets	BV	(HK\$m)	501.2
Net cash	BV	(HK\$m)	67.5
Total		(HK\$m)	11,432.0

Sources: KKSG's projection

Valuation of sports & entertainment major listcos

Company	Code	Mkt Cap(HK\$m)	Curr PE(X)	Forward PE(X)	P/S(X)	1yr P.chg (%)
EVOLUTION GAMING	EVO SS	276,708.9	49.3	36.2	28.0	150.3
ZEAL NETWORK SE	TIMA GR	8,387.9	96.0	45.2	9.4	7.5
OPAP SA	OPAP GA	42,323.0	16.2	12.3	2.9	69.5
FLUTTER ENTERTAI	FLTR LN	275,563.0	47.8	35.3	4.3	24.4
ENTAIN PLC	ENT LN	119,405.8	35.0	21.6	2.9	125.9
INTERNATIONAL GA	IGT US	34,934.4	21.6	17.1	1.1	91.2
PENN NATL GAMING	PENN US	89,554.6	22.5	25.1	2.0	4.7
GOLDEN NUGGET ON	GNOG US	12,514.9	-	-	12.5	13.4
SCIENTIFIC GAMES	SGMS US	55,089.3	45.3	32.4	2.2	116.3
LOTTO24	LO24 GR	6,178.2	-	-	-	42.8
DRAFTKINGS INC-A	DKNG US	179,014.1	-	-	17.9	10.7
FLUTTER ENT ANR	PDYPY US	273,394.6	-	-	-	30.0
GAN LTD	GAN US	4,958.9	-	-	4.9	(8.5)
Weighted Average			41.9	30.9	12.0	

Sources: Bloomberg



Online Paid Sports Information Platform

Leader in paid sports information market Covering more than 200m sports fans and sports lottery purchasers in China, Crazy Sports online paid sports information platform is consisted of Crazy Red Insights APP, China Soccer Lottery and Lottery 365 websites. In terms of diversifications of contents and market share, Crazy Sports' paid sports information platform is leader amid its counterparts.

Paid sports content. Crazy Sports online paid sports information platform brings itineraries and information of sports matches of major leagues and tournaments in more than 200 countries to users, covering Premier League, top five European Leagues and NBA, as well as global sports event such as FIFA World Cup, UEFA Euro and the Qlympics Game, etc.

It has engaged with more than 30,000 KOLs, commentators and experts for provision of insights and analysis of sports matches to users. By exploiting its rich repository of big data of more than 280,000 matches for 20 years, powerful A.I. engine and sophisticated algorithm, Crazy Red Insights APP customize various analytical and prediction tools and contents for users, including football parameters, deviation analysis, surprise index, margin model and index abnormal movement, etc. Presented in various visual formats such as charts and exponents, those analytical contents provide users with analysis and insights of sports matches, shedding light of potential outcome of matches.

Interactive products such as one-on-one audio consultations and one-to-many paid lecture, and real-time consultations services conducted by engaged experts are also being offered by Crazy Red Insights APP to users. Supported by its A.I. engine, the APP push customized products to users in light of consumer's preference and behavior at appropriate timing, such as when sports match is in progress.

Extensive distribution channel. Crazy Sports monetize from provision of paid sports information through B2B channel; as well as direct sales to its users. Under the B2B model, contents generated by Crazy Red Insights are distributed via vast online distribution network consisting of online sports channels with broad subscriber base. In return, Crazy Red Insight share gross subscription billing with its partners. In 1H FY21E, Crazy Red Insights added 10 more distribution partners, including those channels with live match broadcasting IPs, such as Migu Video, an online live-matches broadcasting channel under China Mobile; CBox, CCTV's online video broadcasting terminal which possess IPs of many international sports live-matches; as well as V Station and ZHCW.com. As of the end of June 2021, Crazy Red Insights contents has been made available on more than 40 sports entertainment-oriented channels covering about 70.0% of sports fans and users in China. Having its products and contents make available on channels with broadcasting IPs of major international tournament, such as CBox and Migu Video, shall facilitate subscriptions of its contents. At live match scenario, contents by Crazy Red Insights are displayed on partners' live-match broadcasting end for latter's users' consumption. Activities would be conducted on different ends of Crazy Sports' platform to boost paid sports contents consumption among users, especially during the sports game in-progress. Anchors of live-streaming at Crazy Red Insights APP and Crazy Sports APP would initiate chat topic and conduct quiz games, regarding the sport match.



Bolstered by sports matches MAU and ARPU of Crazy Red Insights platform is positively correlated with major soccer tournament, as demonstrated by the surge in number of users and ARPU during the UEFA Euro 2020 in June and July. On the first day of UEFA Euro 2020, number of newly registered users surged ten-folds of the number of average daily newly registered users in May 2021. According to the statistics provided by Crazy Sports, newly registered users on average made three purchasing on the first day of UEFA Euro 2020, and semi-monthly ARPU of newly registered users has reached CNY150.0 for June 2021. Further, collective monthly number of visitors of China Soccer Lottery website and H5 of Crazy Red

Insights almost attained 9.0m in June 2021, outstripping the highest monthly number visitors of 5.3m that was recorded in May 2020. During Tokyo 2020 Olympics Games in August 2021, Crazy Red Insights engaged with celebrity sports KOLs and experts as well as incumbent and retired athletes for provision of analysts and outcomes predictions to users.

Positive outlook For 1H FY21E, revenue of Crazy Sports online paid sports information segment surged 505.6% YoY to HK\$68.1m, accounting for 29.7% of the group's total revenue for the period. Outlook of Crazy Sports paid sports information platform is positive, in our view. Sales of sports lottery tend to be robust for a period when major sports events are being held. For example, 2018 was the year of FIFA World Cup. Sales of sports lottery in China for 2018 increased by 36.8% YoY, comparing to the annualized growth rate for 2017 of 11.4%, and ten-year sports lottery sales CAGR of 15.0% for 2009-2019. Consumption of paid sports contents tend to grow at faster pace alongside sports lottery sales. For instance, sales of paid sports contents surged more than three-fold in 2018 according to figures provided by CIC. Thus, we come up with conclusion that upcoming major sports events including World Cup Qatar 2022 and 2022 Beijing Winter Olympic shall bolster the consumptions of paid sports information.

The sports quiz game platform "Fantasy Sports Events Platform" that would be launched soon would be impetus of paid sports information sales. More interaction and cross-selling amid different ends in Crazy Sports ecosystem shall facilitate subscriptions of its paid sports contents, in our view.



Sports Themed Interactive Social Media Platform

Crazy Sports APP is an interactive social media platform providing information concerning sports games, short videos of soccer and basketball games, sports-topic live-streaming shows and live-matches broadcasting. Stationed journalists and anchors at Crazy Sports end bring sports contents of soccer and basketball, sports game analysis, news, information and anecdotes of athletes to users. Providing most up to date information of clubs, teams and players of more than 2,000 leagues worldwide, Crazy Sports APP has been regarded as one of the most influential databases of major leagues and tournaments available in the market.

User acquisition and promotion of products Crazy Sports' social media end monetize from advertising income, paid contents, membership fee, as well as top-ups and tips from users to show anchors. Its revenue increased by 57.1% YoY to HK\$33.0m for 1H FY21E.

Crazy Sports APP consolidates users (mostly sports fans), promotion and members-oriented marketing campaign, rewards and redemption system together. It facilitates user acquisitions and conversions, and monetization at different ends of Crazy Sports ecosystem. For promoting its mobile game "Ace Soccer" which was launched in June 2021, Crazy Sports APP gave out UEFA Euro gift package to its users for in-game use. In chatroom and quizzing games, anchors of live-streaming shows of Crazy Sports App interact with users, triggering certain users' actions and facilitating in-app purchasing.



Sports Lottery Retail Strategy

Nationwide sport lottery POS network. Crazy Sports is expanding its offline sales network of sports lottery, comprising of smart lottery terminal installed at convenience stores spanning across the country and lottery specialty stores named as “365 Smart Stores” which are focusing on serving high-net worth client and VIP member of Crazy Sports offline.

Lottery sales in China are regulated by Ministry of Finance and approved by provincial Sports Lottery Administration Centers, which has set rigorous operation threshold for sports lottery sales operation. Sports Lottery Administration Centers require operator to pay deposit for each smart lottery terminal to be employed at premises. For store operator, it is efficient and costs containing to team up with Crazy Sports which possess lottery sales qualifications, for setting up the lottery sales operation and share sales commission with the latter. Crazy Sports has been granted approvals for operation of sports lottery sales by 13 provincial Sports Lottery Administration Centers in tier-1 and major cities, including Beijing, Tianjin, Chongqing, Weihai in Shandong province, Nanjing in Jiangsu province, Xuchang in Henan province, Changsha and Hengyang in Hunan province, Zhuzhou and Wuhan in Hunan province, Guangzhou and Shenzhen in Guangdong province. As of the end of June 2021, number of Crazy Sports’ sports lottery POS was 5,101, representing surge of 408.6% from 1,003 of that as of the end of December 2020. Meanwhile, revenue of Crazy Sports offline sports lottery retail service segment surged remarkably by 900.0% YoY to HK\$5.0m for 1H FY21E. We expect that Crazy Sports’ sports lottery sales segment would turn profitable by FY22E, upon increase in number of POS, and rise in average monthly sales at each POS bolstered by major tournaments and global sports events, such as FIFA World Cup Qatar 2022.

Expanding sports lottery sales network. Crazy Sports has engaged with 29 convenient store chain operators, for set-up and operations of sports lottery sales terminal at more than 60,000 convenience stores spanning across the nation, with Hi-24, ampm, Bianlifeng, Jiajiayue, Pangzidian, Wanhexiang, Guangdong 7-Eleven, Youkejia, Qianhui, Tianfu, Heli and Youlinyoutia, Guangdong China Resources Vanguard, Dalian Lianhua Quik, Shanghai 007, Anhui Lawson, Bestmate, Easy Joy by Sinopec in Hunan and Jiangxi provinces inclusive.

In January 2021, Crazy Sports entered into strategic cooperation agreement with Lakala (Beijing) E-Billing Technology & Services Cp., a leading third-party payment services and solutions provider in China. As of the end of 2019, Lakala served and empowered more than 21.0m businesses of retailing, logistic, catering, property management, insurance and trading industries. We expect that Crazy Sports could accelerate the expansion in its offline sports lottery sales network by leveraging on Lakala’s clients’ vast commercial network.

Pivot of directing user to online platform Sports lottery terminal at convenience store provides a very convenient setting for customers buying sports lottery tickets while shopping at convenient store. Various marketing campaigns are being conducted at its partners’ convenient stores premises to promote Crazy Sports’ other products and services. In 1H FY21E, Crazy Sports jointly conducted a marketing campaign named as “shop to earn lottery tickets” with its partners including China Resources, Tianfu and Lawson. The activity was successful with 30,000 in-stores customers’ participations. During the UEFA Euro 2020 in June-July 2021, some of the Crazy Sports’ partners shops were decorated with UEFA Euro posters, and shop staffers beckoned customers to participate online lucky draw concerning football matches of UEFA Euro conducted by Crazy Sports platform. Occasional marketing campaign in store facilitate conversion of lottery purchasers at offline scenario into users of Crazy Sports’ online platform.

Crazy Sports



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Crazy Sports reaches and acquires users via smart lottery terminal deployed at convenient stores of its partners. Sport lottery purchasers at convenient store are able to access to Crazy Sports' online contents and services such as customer services, information in respect of lottery, recommendations from experts and KOLs as well as reward redemption via its APPs, or its public account on Wechat. Besides, lottery purchaser could install Crazy Sports' mobile ends to their mobile phone by scanning the QR code available on the smart lottery terminal. Crazy Sports' lottery POS network spanning across the country is expected to be a major pivot directing sports lottery purchasers at offline scenario to its sports quiz game platform "Fantasy Sports Event Platform".



Hainan Strategies and Fantasy Sports Events Platform

Hainan: supportive policies In 2018, central government demonstrated its support to the Hainan province experimental region of free-trade development plan, through the official document promulgated "Guiding opinion of The State Council of the PRC on supporting comprehensive reform and opening in Hainan". In accordance of "Deregulation of market entrance in respect of supporting development in Hainan free trade port" jointly promulgated by NDRC and Ministry of Commerce in April 2020, in order to facilitate the development of Hainan into sports and tourism demonstration zone at state-level, barriers of entrance to sports market in Hainan shall be removed. Development of aqua and beach sports in Hainan is encouraged. In order to support the development of online game industry in Hainan, government bodies consider to let Hainan being a testing province of having the authority for online game censorship. Further, as stated in the official document of "Opinion regarding deepen the comprehensive reform and opening in Hainan via financial measures" jointly promulgated by PBOC, CBIR, CSRC and SAFE in April 2020, sports projects in Hainan could issue bonds for financing. Option of setting up of credit database of sports enterprises for facilitating project financing concerning sports industries in Hainan has been evaluated.

Foothold in Hainan. Crazy Sports secured approvals from relevant authorities of Hainan Province for establishment of sports quiz game platform and related prize redemption platform, subject to the provisions under the official documents of "Implementation Opinions of the People's Government of Hainan Province on facilitating sports industry and promoting consumptions in respect of sports", and "Opinion of General Office of the People's Government of Hainan in respect of expediting the development in fitness and leisure industries". It has been consented to develop and operate a block-chain based sports quiz game platform. Crazy Sports also entered into agreement with the official reward point exchange center of Hainan in June, for cooperation in development of the reward point and prize redemption system.

Fantasy Sports Events Platform Designed as channel to promote sports, leisure, cultural industries and tourism in Hainan, the block-chained based sports quiz game platform named as Fantasy Sports Events Platform, would cover comprehensive sports games around the globe, including compelling tournaments and leagues as NBA and UEFA, and sports such as formula racing, boxing and e-sports. Through in-app purchasing and performing tasks requested at different ends of Crazy Sports platform, users earn points that are exchangeable for participation into sports quiz game offered at "Fantasy Sports Events Platform". Users are remunerated reward points when they win the quiz game, and vice versa.

DuoDuo Reward Points System A reward points management system end, "DuoDuo Reward Points System", has been set up for users to store and manage their reward points earned from Crazy Sports ecosystem. The rewards points could be exchanged for in-app consumable items at Crazy Sports platform. As mentioned, Crazy Sports reached into agreement with the official reward point exchange center of Hainan, implying the reward points earned from Fantasy Sports Events Platform could be exchanged for items offered by the latter. The items being offered are likely to be those concerning tourism and consumption in Hainan, such as tickets for air and cruise travel, hotel room, souvenir, or coupons/vouchers at duty stores in Hainan.



Impetus to boost platform traffic Fantasy Sports Events Platform and DuoDuo Reward Points System are set to be rolled out in 2H FY21F. The quiz game end and reward points management end are expected to facilitate user acquisition and initiate more in-app consumptions and cross-selling, user conversions among different terminals in Crazy Sports loop. Under the quiz game scenario, player of sports quiz game is likely to buy information concerning the sports match of quiz game from Crazy Red Insights and Crazy Sports APP beforehand. Participants of a sports quiz game is likely to purchase sports lottery tickets at offline POS. As window to promote sports/cultural tourism in Hainan, Fantasy Sports Events Platform is expected to generate income from provision of advertising and promotion services.

Exploring blockchain with HuoChain In February 2021, Crazy Sports entered into strategic cooperation framework agreement with HuoChain Technology, for jointly exploring potential block-chain technologies applications in sports entertainment industry, including industrial solution consultancies, development of business model, projects cooperation and brand building.

HuoChain Technology is under the umbrella of Huobi China, a leading enterprise founded in 2013 committing to development and application of blockchain technologies and empowerment of various industries and businesses with blockchain technologies. Huobi China is engaged in the development of industrial blockchain, public blockchain, exchange for digital assets, e-wallet for digital assets, cryptocurrency mining pool, incubation of blockchain related ventures and R&D. As legit digital assets exchange service provider in many countries, Huobi China has set up JVs and subsidiaries in 12 countries including the U.S. Japan, Gibraltar and Thailand. It has unfolded jointed R&D blockchain projects in Argentina, Russia, Thailand and Nigeria. Digital asset exchange platform of Huobi China is serving users in more than 170 countries. As blockchain services provider, HuoChain Technology has developed numerous patented underlying blockchain technologies. It has empowered numerous enterprises from different industries with blockchain technologies.

Advantages of blockchain-based platform Since encrypted data from each node of blockchain is stored in different clouds, decentralization in database and computing is achieved. Such decentralization has merit of openness with highest cybersecurity. Users is allowed to retrieve data from the blockchain but not tamper it. Once data has been verified by every node of blockchain, it stays forever and could not be modified. Blockchain's virtuous of decentralization and tamper resistance make it an ideal underlying infrastructure for Fantasy Sports Events Platform and DuoDuo Reward Points System. On the platform operated upon blockchain, user could check results of sports matches and quiz games anytime without worrying data being modified; and user's digital assets such as reward points in the platform are always being safeguarded.

Boxing interactive entertainment In June 2021, Crazy Sports entered into exclusive strategic cooperation framework agreement with Macao New Long San Group, which has been authorized by International Professional Boxing Unite (IPBU) to conduct boxing matches. Subject to which, the parties would jointly promote boxing matches in Hainan, organize and conducts boxing matches, develop interactive entertainment of boxing, and facilitate the communication among boxers and other talents. Subject to the terms of IPBU authorizations, Macao New Long San Group would assume investment for boxing matches, and commit to conduct hundreds boxing matches in Hainan in three-year term starting from the effective date of the agreement. Crazy Sports would be the exclusive interactive entertainment provider for IPBU matches. "Fantasy Sports Events Platform" and "DuoDuo Reward Points System" would be the sole interactive entertainment platform for IPBU matches.



About IPBU Headquartered in Macau, IPBU is an organization of international professional boxing. Just as other boxing organizations, IPBU ranks professional boxers around the world, granting them championship and honor. IPBU's boxing rules were set in light of world common boxing rules, which is applicable to boxing rules of Association of boxing commissions (ABC). Numbers of major international boxing organizations conduct championship for IPBU upon their mutual working relationship. Since IPBU has allied with major boxing organizations worldwide, champions of major regional or continental tournaments would have chance to win IPBU championship. IPBU has established strategic working relationship with China Professional Boxing Organization, committing to bring up Chinese boxers to the world boxing. IPBU registers and ranks boxers from sports agencies and boxing club around the world. As an international boxing organization, boxing matches of IPBU tournaments are conducted in Macau as well as in many parts of the world. The organization is aiming to bring the world most influential and compelling boxing ring to Hainan, and put Hainan at the center of the world boxing map. IPBU has established a center in Hainan for conducting at least 700 matches a year for 17 weight divisions of male and female championships.

Broadcasting of live-match Boxing has been one of the most favorable sports among sports fans globally, and a popular subject for sports quiz game, as demonstrated by the world championship matches conducted in Las Vegas. Exclusive rights of providing online interactive entertainment of IPBU championships boxing matches would facilitate user acquisitions, monetization and user conversion at all terminals in Crazy Sports platform, in our view.

Number of users acquired would be boosted while user stickiness to the platform be beefed up should Crazy Sports put up more live-matches broadcasting contents at its terminals, in particular exclusive content. However, costs for non-exclusive broadcasting rights for popular tournaments and leagues are exorbitant. In contrast, broadcasting rights for emerging tournaments and leagues cost less. Potentially, Crazy Sports could acquire exclusive broadcasting rights of those emerging tournaments and leagues at relative low costs, for putting up exclusive live-matches broadcasting contents at ends of its platform.



Sports-themed mobile game

Specialist of sport-themed mobile game. Positioning itself as interactive sports entertainment enterprise, Crazy Sports specializing on the provision of sports-themed mobile game. It has been working with 16 R&D and distributing partners in China, the United Kingdom, Spain, the United States, Russia, Finland, Austria, Slovakia and other countries for game development and distribution, include Rania Games, Silver Games from the Bench Studio, Pro 11 and Tower Studios. Crazy Sports has been teaming up with established gaming company and distributors including Tencent, NetEase, 360 and BlueStacks. For distributing its game via channels such as gaming organizations and cyber café associations, Crazy Sports formed partnerships with Quanyou E-Sports and several downstream channels.

Sociable Soccer is live-battle football mobile game. It is distributed by Apple exclusively and has been well-received in more than 150 countries, thanks to its remarkable engine, smooth battle scenes and distinctive playing mode. Crazy Sports has localized the game with MIGU of China Mobile and Tower Studios which developed the game 20 years ago. Sociable Soccer obtained publishing license from National Press and Publication Administration and is set to be launch in near term.

FIFPro licensed "Ace Soccer". Established in 1965, International Federation of Professional Footballers (FIFPro) is a professional union representing pro-footballers from more than 60 countries. Licensed by FIFPro, Crazy Sports' soccer e-sports mobile game, "Ace Soccer", adopted IPs of more than 60,000 pro-footballers from leagues of 54 countries, including the big five European Leagues. Operating on proprietary "Spark" 3D game engine which Crazy Sports and its partners co-developed for four years, "Ace Soccer" features real time PVP, RPG and story plot modes, providing fabulous gaming experience to players.

"Ace Soccer" for Android had been launched in May 2021 on multiple fronts included Huawei, OPPO, VIVO, UC, Myapp and APP.MI. It was introduced on IOS in June 2021. Crazy Sports engaged Gameone as distribution agent of Ace Soccer in HK, Macau and Taiwan. The game has been acclaimed by players since its launch in May 2021. Given the smooth motion of online PVP mode, story plot featuring proxy of star footballers and other innovative mode featured by the game, TapTap users rated "Ace Soccer" as the most "dedicated soccer game". "Ace Soccer" was recommended by Android and IOS for its high user retention rate and fine data regarding in-game purchasing made by users.

Realtime CSL. Crazy Sports has been official working partner in game of Chinese Football Association Super League ("CSL") since 2017. It has been adopting IPs of 500+ pro-footballers and clubs of CSL into its mobile games, including Realtime CSL, a real-time football-themed mobile game also operated on its proprietary "Spark" 3D game engine. Realtime CSL demands good control skill of players rather than level, comprehensive capabilities and ranking of the proxies in the game, degree of fairness of its PVP mode is high. Since September 2021 when the new game season begin, engine of Realtime CSL has been upgraded, enhancing all aspects of the game included graphic and original animation, motion, control, skills of characters, match system and the A.I.

In 4Q 2020, offline version of Realtime CSL had been designated as game for Longjiang Cup, a e-sports championship of Heilongjiang Province, boosting number of downloads of the online version of the game that was launched subsequently. At "Golden Seagulf Award for 2020" ceremony that was conducted in January 2021, Realtime CSL was honored as the "Best Sports Game Award for 2020" on its outperformance in mobile gaming industry last year. "Golden Seagulf Award" was initiated by xiouwang.cn and all the candidates were reviewed by 40 institutions from mass media and investment community.



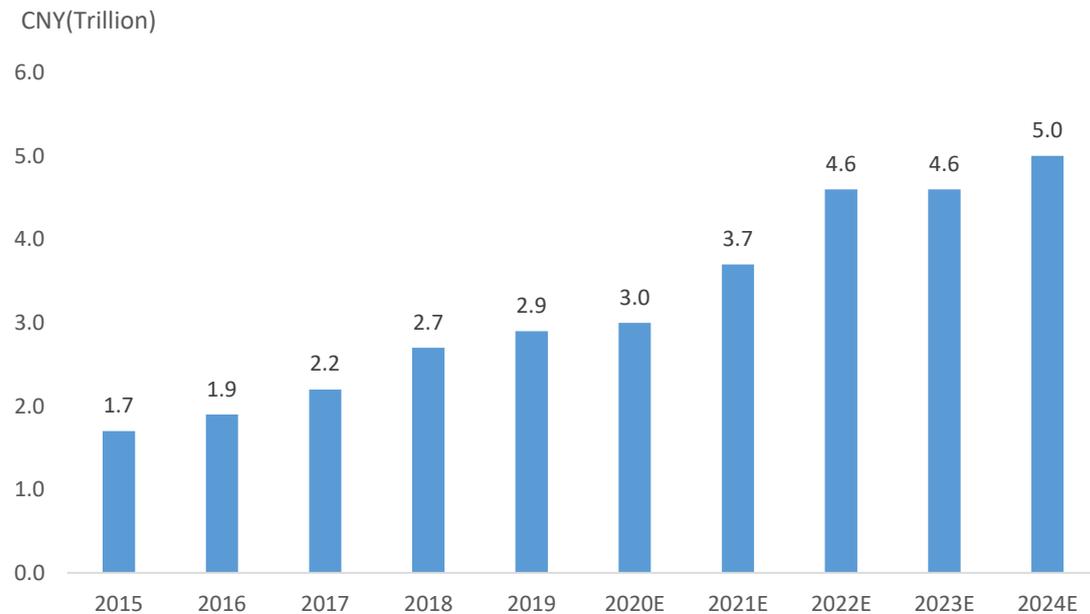
Rich Games inventory. Other than “Ace Soccer” and “Real Time CSL”, Crazy Sports released numerous remarkable sports-themed and leisure mobile games, including “Soccer Manager” and “Slapstick Fighter”. Crazy Sports has rich games in its pipeline which are set to be launched in 2H FY21E, including “Football Chairman”, “Sociable Basketball”, “Basketball Slam”, “Fantasy Basketball Manager”, “Drift Legends”, “Tennis World Open”, “Galaxy Bowling”, and “Cute Rush Runaway”.



China sports entertainment industries

Growth in sports industry in 2015-2020. Revenue of sports industries in China increased at four-year CAGR of 14.8%, from CNY1.7 trillion for 2015 to CNY2.9 trillion for 2019, which was approximated to the target that had been set for 2020 at CNY3.0 trillion.

Market size of sports industries in China



Source: National Bureau of Statistics

National goal for sports and sports industries.

- In 2019, State Council published the document regarding development of domestic sports sector, "Outline for Forging the Nation into Sports Superpower". The document listed out series of goals in respect of development of sports sector, covering ratio of frequent exercisers in total population, exercising space, target for universal physical fitness condition, development of athletic and fitness facilities and services for juvenile, elevation of the contributions from sports industries to GDP and fortifying prowess and clout of national sports in international community...etc. Government intended to rise the percentage of exercisers in total population to above 45.0%. Percentage of urban and suburban population that pass "Universal Physical Fitness Standard" was targeted to be above 92.0%. Per capita exercising space was designed to be 2.5 m².
- In "Outline of the PRC 14th Domestic Economic and Social Development Plan and the Goals and Vision to 2035", "sports and fitness" had been underscored. The goal of forging the nation into the global sports superpower by 2035 had been stated in the plan unequivocally.
- In " Universal Exercising Plan 2021-2025" that was promulgated in 2021, State Council had formulated a series of initiative for promotion of universal exercising among society, covering hardware for exercising, organizations of universal sports events, upgrading qualities of physical educations and trainings, invigorating activeness among civil sports and exercising organizations, facilitating exercising among focused social groups, facilitating sustainable development in sports industries, incorporation of universal exercising into development of sports industries and forming ambience of exercising amid society.



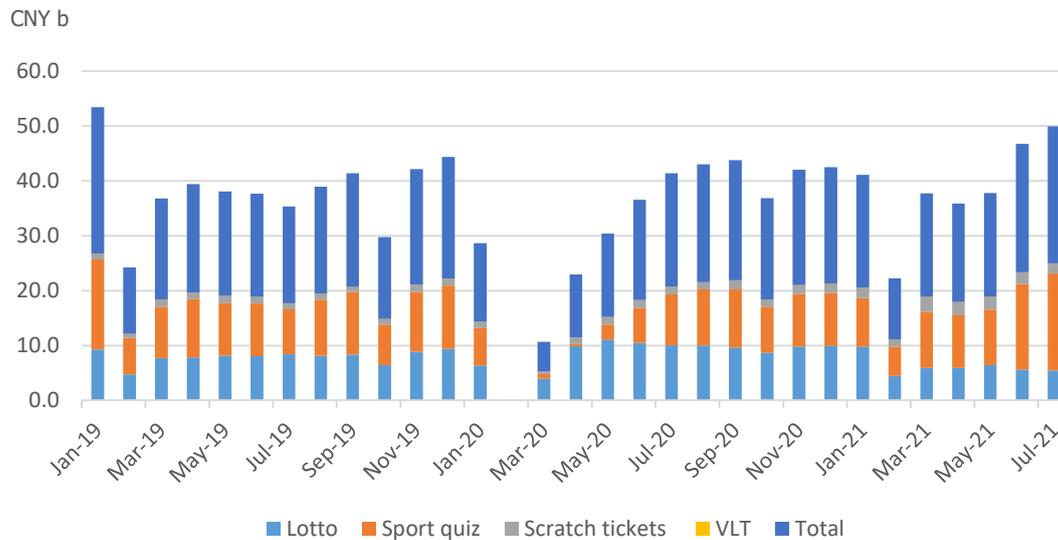
- Initiatives in respect of exercise hardware in the 2021-2025 Plan include construction or retrofitting of more than 2,000 sports theme parks, increase the number of fitness centers, provisions of fitness equipment in more than 5,000 townships, set-up of more skating rinks, conducting digitization for more than 1,000 stadiums, facilitating the development of smart exercise facilities and extending opening time of public stadiums for general public use. Measures for promotions of sports events of the 2021-2025 Plan include hosting of universal exercises competitions, capitalizing on the Winter Olympic Game 2022 to promote winter sports, facilitating the development of soccer, basketball and volleyball; as well as conducting prefectural soccer matches.
- Initiatives for upgrading physical trainings and educations in 2021-2025 Plan include provision of online lecture of sports and exercising for public, development of ranking system for different sports for general public, reformation of management system for physical trainers and implementation of registration system for physical trainer, lowering the threshold for qualification of physical trainers, elevating standards of physical education and services.
- 2021-2025 Plan also touch on the subject of development of digital infrastructure for sports industries. Feasibility studies of establishment of social fitness scoring system as “fitness bank” and “fitness code” systems would be conducted. Establishment of an online platform of universal fitness for provision of inquiry services in respect to fitness, registration for training courses, reservation services of exercising facilities and venues, and instruction of exercising, has been putted into the scheme. According to 2021-2025 Plan, supervision over the safety of sports facilitates and venues would be fortified. Safety standards for outdoor sports and protocols for prevention and handling of accidents for public sports events would be formulated. Governmental bodies would provide supports to prominent civil organizations and clubs of sports.
- According to “Universal Exercising Plan 2021-2025”, by 2025, 38.5% of the population would be civilians who exercise frequently. Exercising facilitates would be laid-out in every prefectures, townships and villages spanning all over the country. By that time, there will be about 2.2 physical trainers for 1,000 civilians, and value of national sports industries shall reach CNY5.0 trillion.

Some future trends of sports entertainment industries in China. According to the statistics conducted by China Internet Network Information Center, as of the end of 2020, China netzine population was about 989.0m, accounting for 20.0% of population of global netzine. Thanks to the country’s tremendous netzine population, China has the world largest online retail market with sales exceeding CNY11.8 trillion for 2020. On the same token, the world largest netzine population provides solid foundation for development of online sports entertainment. Besides, technologies including 5G, A.I., big data and cloud computing, would accelerate digitization of sports entertainment industry. IP of mega sports events and stars athlete would boost consumption of online sports entertainment of many forms, facilitating users acquisition and boosting ARPU, and opening more opportunities for enterprises to monetize from sports industries.

Growth momentum is building Sports lottery sales in China, with lotto, sports quiz game, scratch tickets and video terminal inclusive, increased at ten year-CAGR of 15.0% between 2009 to 2019, from CNY56.9b to CNY230.8b. Unfortunately, due to the COVID-19 pandemic, almost all of the major sports tournaments were suspended in 2020. With no sports matches for wagering, sports lottery sales in China dropped 17.9% YoY to CNY189.5b for 2020. Thanks to the resumption sports matches of leagues and the hosting of global sports events with UEFA Euro 2020 and Tokyo Olympic 2020 inclusive, we see sales of sports lottery has been resuming growth momentum. For the first seven months of 2021, sales of sports lottery increased 29.8% YoY to CNY68.5b.

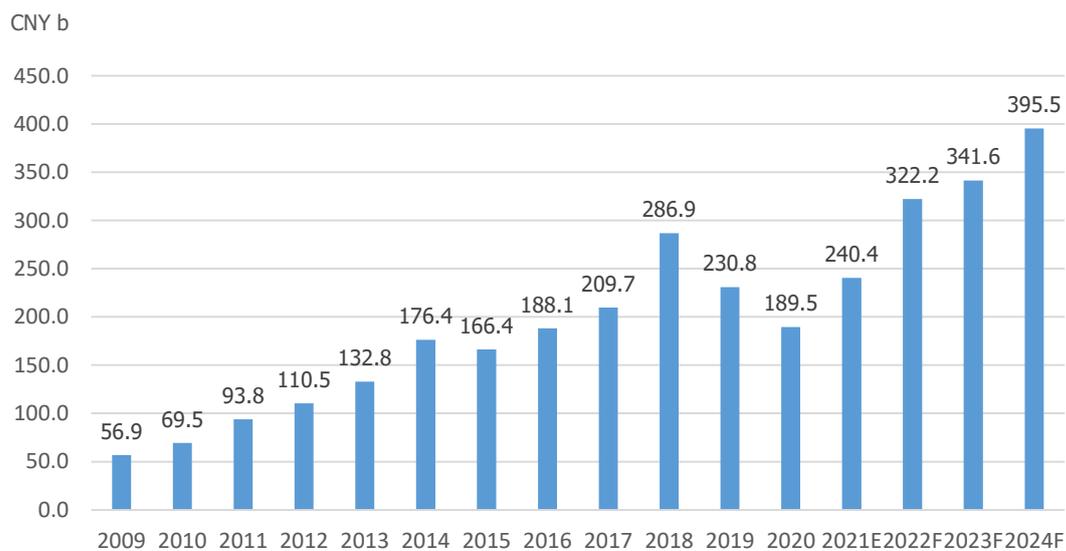


Jan 2019-July 2021 sports lottery sales by type



Sources: Ministry of Finance PRC

Sports lottery sales in 2009A-2024F



Sources: Ministry of Finance PRC, CIC

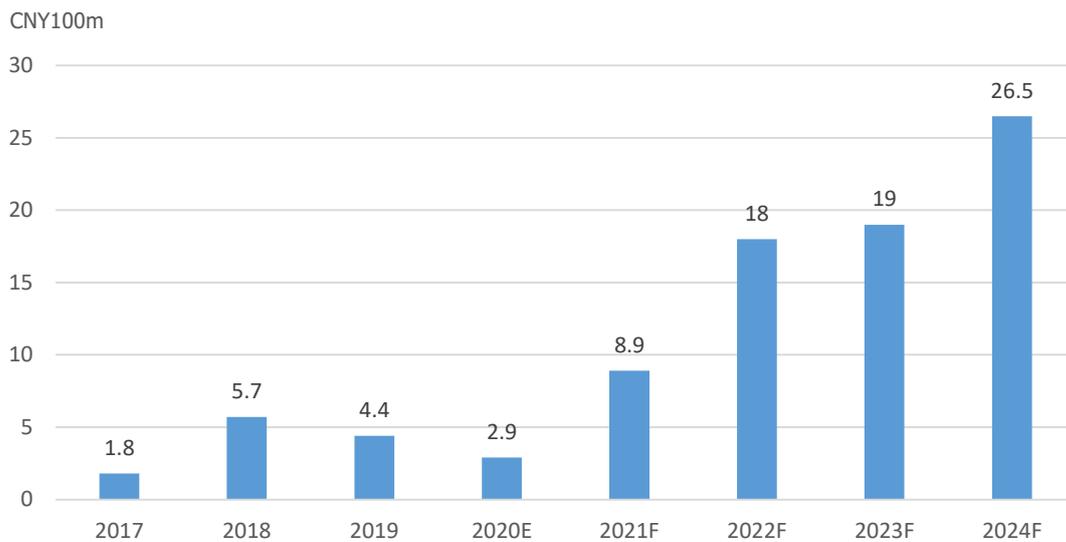
Sales bolstered by big games Sales of sports lottery, especially sports quiz game tend to be robust in the year when major sports event was held. For example, 2014 and 2018 were the year when FIFA World Cup was held. Sales of sports lottery in China for 2014 and 2018 increased by 36.8% YoY and 32.8% YoY comparing to the annualized growth rate for 2013 and 2017 of 20.2% and 11.4%, respectively; and the ten-year CAGR of 15.0% in 2009-2019.

In our view, outlooks of sports lottery consumption in China for 2022 are positive, when the Beijing Winter Olympic 2022 and FIFA World Cup Qatar 2022 being held. Introduction of new sports lottery type shall attract more players, boosting sales of sports lottery. China Insights Consultancy projected that sales of sports lottery in China shall increase by 26.9% YoY and 34.0% YoY, respectively, to CNY240.4b and CNY322.2b for 2021 and 2022.



Positive projection for 2021-2024 China sports lottery sales is projected to increase at four-year CAGR of 20.2% for 2020-2024, attaining CNY395.5b for 2024. Under the assumption that sports lottery purchaser would consume paid sports information content, sales of paid sports information content shall grow fast alongside sports lottery sales. CIC projected that sales of paid sports information would increase at four-year CAGR of 73.9%, reaching CNY2.7b for 2024. APRU of paid sports lotteries information is projected to increase at 11.3% CAGR from CNY160.0 for 2019 to CNY272.9 for 2024. As leading sports & entertainment contents and services provider in China, Crazy Sports would be lucrative in the thriving market.

Consumptions of paid sports lottery information services in China



Sources: CIC


Income Statement FY ended 31 Dec

HK\$ m	FY20A	FY21E	FY22F	FY23F
Revenue	300.8	618.8	1,188.0	1,714.5
COS	(170.1)	(350.2)	(629.1)	(860.4)
Gross Profit	130.7	268.6	558.9	854.1
Others	83.4	32.9	23.3	15.4
S&D exp.	(52.9)	(68.2)	(125.0)	(140.8)
Admin exp.	(61.4)	(73.6)	(146.4)	(182.2)
Impairment	(0.9)	0.0	0.0	0.0
Finance costs	(0.9)	(0.6)	(0.1)	(0.2)
Loss of Asso.	(31.7)	(5.0)	0.0	0.0
Pretax Profit	66.4	154.2	310.7	546.4
Taxation	2.1	(26.2)	(52.7)	(92.7)
Net profit	(131.3)	128.0	257.9	453.7
P/L of disc. Op.	(199.9)			
Core PL	68.5	128.0	257.9	453.7

Balance Sheet as at 31 Dec

HK\$ m	FY20A	FY21E	FY22F	FY23F
Fixed assets	30.4	15.0	14.8	15.0
Int. assets	53.1	76.0	147.0	190.3
Goodwill	426.9	435.7	435.7	435.7
Others	373.2	476.8	476.8	476.8
Total NCA	883.5	1,003.5	1,074.3	1,117.7
Inventory	0.4	2.0	2.0	3.0
Receivables	109.2	163.4	165.0	193.0
Cash	109.8	142.2	322.4	693.0
Others	84.3	71.2	71.2	71.2
Total CA	303.6	378.8	560.5	960.1
Borrowings	21.1	15.0	6.0	6.0
Payables	94.9	66.0	68.0	58.0
Dividend payable				
Tax payable	112.1	112.1	112.1	112.1
Others	61.6	67.0	67.0	66.0
Total CL	289.7	260.0	253.0	242.0
Borrowings	10.3	9.0	6.0	6.0
Deferred tax	6.3	6.3	6.3	6.3
Total NCL	16.6	15.3	12.2	12.2
Net Asset	864.3	1,090.4	1,353.0	1,807.0
M.I	16.6	16.6	16.6	16.6

Cash Flow Statement FY ended 31 Dec

HK\$ m	FY20A	FY21E	FY22F	FY23F
EBT	(133.5)	154.2	310.7	546.4
Depreciation	52.1	5.6	45.2	73.0
Net interest expenses	1.1	0.6	(1.6)	(4.3)
Non-cash items	79.7	(8.9)	(10.9)	(10.9)
<i>EBITDA</i>	(0.6)	151.5	343.4	604.2
Change in WC	(20.7)	(78.9)	0.4	(40.0)
Others	(7.9)	0.0	0.0	0.0
Tax Paid	0.0	(26.2)	(52.7)	(92.7)
Operating CF	(29.2)	46.4	291.1	471.4
Capex	(2.9)	(31.2)	(111.4)	(116.0)
Others	30.1	20.7	12.6	15.4
Investing CF	27.2	(10.5)	(98.8)	(100.6)
Dividend paid	0.0	0.0	0.0	0.0
Change in loans	3.4	3.2	(12.0)	0.0
Interests exp.	(0.4)	(0.4)	(0.1)	(0.2)
Others	49.7	(6.2)	0.0	0.0
Financing CF	52.7	(3.4)	(12.2)	(0.2)
Change in cash	50.7	32.5	180.1	370.6
Beginning cash	58.9	109.8	142.2	322.4
Exchange	0.1	0.0	0.0	0.0
Ending cash	109.8	142.2	322.4	693.0

Financial Ratio

	FY20A	FY21E	FY22F	FY23F
Int. turnover days	7.7	1.2	1.2	1.1
Trade rec. days	4.9	46.0	37.0	28.8
Trade payables days	31.3	29.2	29.2	26.7
GPM (%)	43.5	43.4	47.0	49.8
OPM (%)	22.1	24.9	26.2	31.9
EBITDAM (%)	(0.2)	24.5	28.9	35.2
NPM (%)	(43.7)	20.7	21.7	26.5
ROE (%)	(15.2)	11.7	19.1	25.1
ROA (%)	(11.1)	9.3	15.8	21.8
Int. coverage (x)	-	-	-	-
Current ratio (x)	1.0	1.5	2.2	4.0
Quick ratio (x)	0.5	0.8	1.2	2.0
Gearing ratio (%)	n.c.	n.c.	n.c.	n.c.
Payout ratio (%)	-	-	-	-



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