

## M Dream Inworld

### Web security software backed by IDG and Tencent

to summarize...

- Cash company acquired 50.5% of a web security software developer Mar 2013
- IDG and Tencent (0700 HK) are with 30%+ interest upon VSA completion
- Asset profit warranty was US\$10m a year in each of next 2 years
- Web security software developers; corporate names and products in market
- Expanding from single product to mobile security app and online games
- Current valuation of 22.5x on fully diluted basis on US\$10m asset net profit

**Cash company acquired 50.5% of a web security software developer.** M Dream Inworld (MDI) in Mar this year completed VSA of 50.5% of a web security software developer, Apperience Corporation at HK\$549m. The management pointed out that IObit of Apperience Corporation had 8m downloads for free or paid products in the single month Dec 2012, and there were 0.8m cumulative paid subscribers worldwide. IObit had 1) freeware for speeding up PC & internet; 2) Malware Fighter at listed price US\$19.99 per year for automated malware protection; 3) Advanced SystemCare Ultimate at listed price US\$29.99 per year for high detection rate full protection. For the year ended Sep 2012, audited revenue and net profit of the asset were US\$10.9m and US\$5.8m.

**IDG and Tencent (0700 HK) are with 30%+ interest upon VSA completion.** Consideration of HK\$549m for 50.5% interest is to be settled by 1) HK\$392.1m 4-year CB at HK\$0.108 conversion price at completion last month; 2) HK\$78.4m worth performance shares at HK\$0.108 per share after 12 months if 1<sup>st</sup> year overall net profit is US\$10m or above; 3) another HK\$78.4m worth performance shares at HK\$0.108 after 24 months if 2<sup>nd</sup> year overall net profit is US\$10m or above. Vendors of the target asset included co-founders Dong Yuguo and Xue Qiushi, co-CTOs Lian Ming and Chen Liang, IDG-Accel China Growth Fund II as well as Tencent Group (0700 HK). Upon full CB conversion and full issue of performance shares, IDG and Tencent together are to hold 33.03% interest in MDI.

**Table 1. MDI shareholders upon VSA completion**

	% with all CB conversion	full performance shares
Major vendors	41.14%	44.79%
IDG	27.30%	29.73%
Tencent (0700 HK)	3.03%	3.30%
Modern Education (1082 HK)	3.94%	3.06%
Public and others	24.59%	19.12%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

Source: SBI E2-Capital

**Profit commitment was US\$10m a year in each of next 2 years.** Vendors of the target are to provide profit commitment for 24 months of US\$10m each year. If US\$10m is not achieved, performance shares to be issued will be reduced on pro-rata basis. The management indicated that with strong client base overseas, the target company could deliver satisfactory results by existing malware protection products and potentially diversify itself towards mobile applications and web game businesses. Leveraging on expertise and channels of IDG and Tencent, management is working to deliver results better than the profit commitment.

Ticker	8100 HK
Rating	Not Rated
Price (HK\$)	0.135
Target Price (HK\$)	n.a.
12m Price Range (HK\$)	0.06 - 0.255
Market cap. (US\$m)	35.3
Daily t/o (US\$m)	0.78
Free float (%)	59.28

#### Financial summary

Year to Dec	11A	12A
Turnover (HK\$m)	3.63	4.14
Net Profit (HK\$m)	(6.15)	(26.63)
EPS (HK\$)	-	-
P/E (x)	-	-
P/B (x) (full dilution)	5.6	6.4
EV/EBITDA (x)	-	-
Yield (%)	-	-
ROE (%)	-	-
ROCE (%)	-	-
N. Gear. (%)	N. cash	N. cash

Source: SBI/Bloomberg

	12F	13F	14F
Consensus EPS (HK\$)	-	-	-
Previous earnings (HK\$m)	-	-	-
Previous EPS (HK\$)	-	-	-

#### Price performance

Year to Dec	1m	3m	12m
Relative to HSI (%)	6.6	(25.3)	71.6
Actual price changes (%)	6.3	(30.4)	80.0



Source: Bloomberg

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Products of newly acquired asset include “Malware Fighter” and “Advanced SystemCare Ultimate”. According to IDC’s definition, web security includes URL filtering, web anti-malware, web application firewall and web content filtering products. Web security products are deployed on software, appliances and platforms. Web security products protect against both inbound (malware) threats and outbound (data leakage) threats. Illustration 1 shows IObit products advertised on its [website](#). Based on description, Advanced SystemCare Ultimate protects PCs against viruses, spyware, hackers, phishing, botnets and others. It also protects identity during online shopping and banking.

Illustration 1. Major products of IObit under the target asset acquired



Advanced SystemCare Ultimate 6  
Protect & Power Up Your PC



Advanced SystemCare 6 PRO  
Speed Up Your PC & Internet

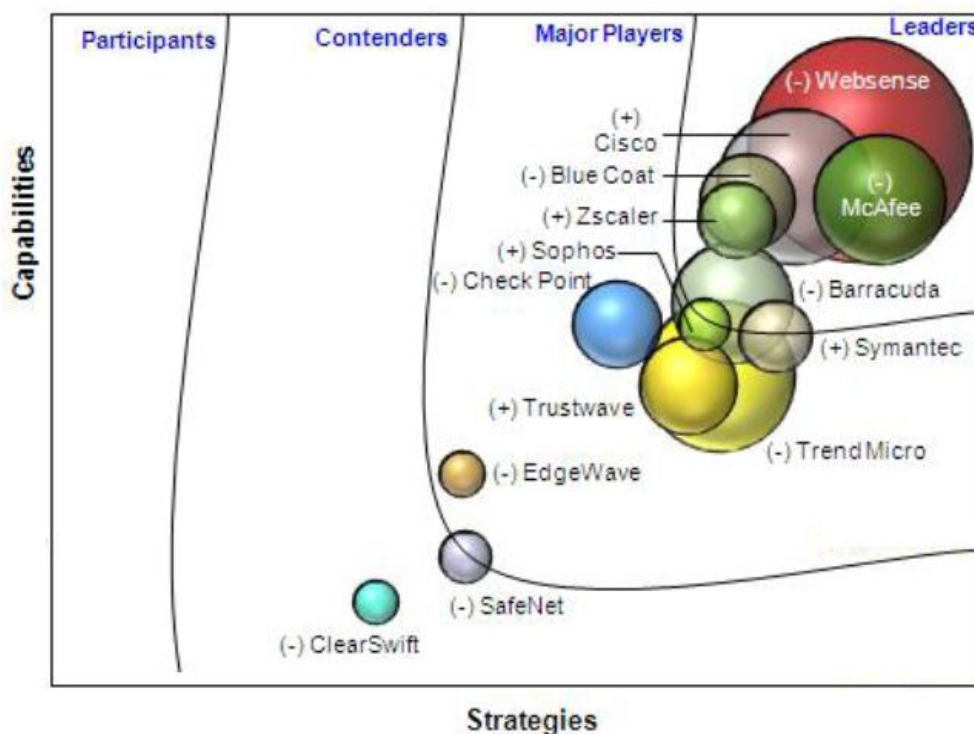


IObit Malware Fighter PRO  
Protect Your PC & Internet

Source: M Dream Inworld

IDC research showing leading web security providers such as Websense (WBSN US). IDC identified several major players in web security market. Illustration 2 shows IDC market space web security market in terms of size and strength. Y-axis capabilities measure how well the company aligned to clients’ need, while x-axis strategies cover 3-5 year strategy identified by IDC. Market size is illustrated by size of bubble, while (+), (-) and (=) indicates relative growth compared to overall market growth. Websense (WBSN US), Trend Micro (4704 JP), CISCO (CSCO US), McAfee (unlisted) and Check Point Software (CHKP US) are some of the leaders in terms of market share. We came across Lab reports on Websense TRITON Web Security Gateway Anywhere (WSGA) version 7.7.3, McAfee Web Gateway 5500, Blue Coat ProxySG 900 and Cisco IronPort S370 AsyncOS 7.6.1 and got similar general impression. In fact, giants such as Websense offer software, hardware, and cloud-based services for web security based on its flagship TRITON-branded content security platform. Its market share was as much as 20%+. On the other hand, with US\$10.9m sales in 2012, IObit was relative unnoticed by the market for the time being. IObit management indicated that they focus more on retail market / individuals at least in short-term.

Illustration 2.



Source: IDC 2012 report (subject to minor editing)

**Anti-malware / anti-virus software in the market received by retail market.** Here we also examine rating of commonly available anti-malware software reviewed by PC Magazine. Table 2 shows 11 out of 40 products they tested in Jan 2013 with 4/5 rating or above. Combined ratings from lab tests results by AV-Comparatives, AV-Test, ICSA Labs, Virus Bulletin, and West Coast Labs are also shown in the table. Some good names in retail market such as Norton, Bitdefender and Kaspersky have excellent lab tests results. Their marketings are also heavier in relative terms, in our view. While we do not come across IObit during our channel checks on PC Magazine for now, we believe independent test results or certain degree of marketing could help gaining exposure if the management is to capture higher market share in near future.

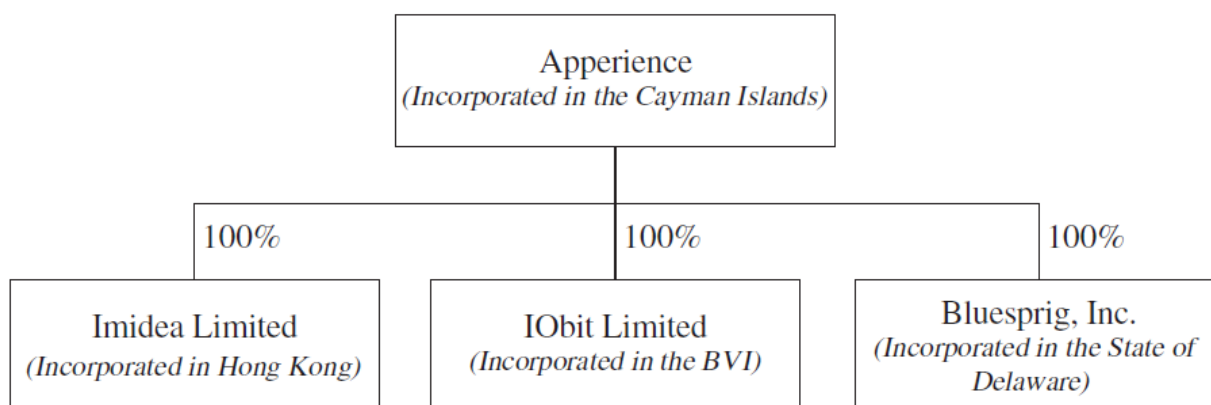
**Table 2. High rating anti-malware product by PC Magazine Jan 2013**

Product	Developer	Ticker	Charge	PC Magazine	Lab tests
Norton AntiVirus (2013)	Symantec Corporation	SYMC US	US\$39.99	4.5/5	Excellent
Bitdefender Antivirus Plus 2013	Softwin	Non-listed	US\$39.90	4/5	Excellent
Kaspersky Anti-Virus (2013)	Kaspersky Lab	Non-listed	US\$39.95	4/5	Excellent
Trend Micro Titanium Antivirus+ 2013	Trend Micro	4704 JP	US\$39.95	4/5	Good
avast! Free Antivirus 7	AVAST Software / ALWIL Software	Non-listed	Free	4/5	Good
AVG Anti-Virus FREE 2013	AVG Technologies	Non-listed	Free	4/5	Good
Webroot SecureAnywhere Antivirus 2013	Webroot	Non-listed	US\$39.99	4.5/5	Fair
Comodo Cleaning Essentials	Comodo Group	Non-listed	Free	4.5/5	n.a.
Daily Safety Check Home Edition	Daily Safety Check	Non-listed	US\$69.00	4.5/5	n.a.
HitmanPro 3.7	SurfRight	Non-listed	US\$19.95	4/5	n.a.
Malwarebytes' Anti-Malware Free 1.51	Malwarebytes Corporation	Non-listed	Free	4/5	n.a.

Source: SBI E2 Capital, PC Magazine

**Expanding from single product to mobile security app and online games; success depends on execution.** For now the acquired Apperience Corp has relatively narrowed product line. Through Imidea and Bluesprig, Apperience is working to diversify its product portfolio towards online games and smartphone applications with ongoing product innovations. As for online games, the company plans to leverage on existing customer base to build online game platform mainly through partnership. With market research in favorable game theme and control panel, the company target to launch 2 online games in 2013F and become cash cow in the future. As for smartphone applications, the company plans to provide mobile anti-virus, cloud backup and device lost-and-found solutions. Management indicated that with its existing main product, the acquired asset could deliver US\$10m profit in each of the next 2 years. Further expansion into online games and mobile care businesses are potentially extra upside in short-to-medium term in case of excellent management execution.

**Illustration 3. Target asset corporate structure**



Source: M Dream Inworld Circular

**Current valuation of 22.5x on fully diluted basis on US\$10m asset net profit.** By end of 2012A, MDI was basically a cash company with HK\$140.7m cash on hand and HK\$14.0m CB and HK\$3.1m bank loan on the book. Net equity was HK\$138.1m, relatively close to its cash value. As such, the listco got a new start with VSA completed in March this year. If the target asset is to achieve US\$10m net profit a year, on fully diluted basis of 6,532m shares (3,631m share from full CB conversion and 1,452m performance shares), fully diluted EPS will be HK\$0.006 at 1US\$ to 7.75HK\$. At HK\$0.135 per share, fully diluted P/E would be 22.5x. Table 3 and Table 4 show balance sheet items and profit and loss summary respectively.

**Table 3. Balance sheet items**

HK\$m	FY11/12A (re-presented)	FY12/12A
<b>Non-current assets</b>		
Fixed assets	0.2	7.9
Intangible assets	1.6	3.6
Goodwill	23.2	2.4
<b>Current assets</b>		
Trade and other receivables	13.5	6.3
Loan receivables, unsecured	5.0	-
Cash and cash equivalents	118.1	140.7
<b>Current liability</b>		
Trade and other payables	2.9	5.2
Convertible notes	-	14.0
Bank loan, secured	-	3.1
Other current liability	0.3	0.5
<b>Non-current liabilities</b>		
	-	-
<b>Total equity</b>		
Shareholders' equity	158.4	138.1

Source: SBI E2-Capital

**Table 4. Profit and loss summary**

HK\$m	FY11/12A (re-presented)	FY12/12A
Revenue	3.63	4.14
Cost of sales	(0.26)	(0.23)
Gross profit	3.37	3.91
Other revenue	1.66	2.05
Other gains and losses	1.51	(16.45)
Selling and administrative expenses	(10.85)	(14.44)
EBIT	(4.30)	(24.93)
Finance Costs	(0.12)	(1.05)
EBT	(4.42)	(25.98)
Income tax expenses	(0.22)	(0.36)
Profit from continuing operations	(4.64)	(26.34)
Profit from discontinued operation	(1.51)	(0.29)
Attributable profit	(6.15)	(26.63)

Source: SBI E2-Capital

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**BUY** : absolute upside of >10% over the next six months

**HOLD** : absolute return of -10% to +10% over the next six months

**SELL** : absolute downside of >10% over the next six months

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