

## Company Flash

# M Dream Inworld Limited 8100 HK

## Attractive valuation with minimal downside risk

- *M Dream has acquired several new IT-related businesses over the last 2 years, which we believe will drive its growth in the coming future*
- *Apperience has set a profit target of USD10.0m for the 2 years after its acquisition in 2013. With 50.5% interest in the company, we expect the profit generated from Apperience will not be less than USD5.05m in FY1/14*
- *The company is currently trading at a prospective P/E of 4.0x to 4.7x for FY12/14, which is significantly lower than its peers. It is also trading at a considerable discount to its BVPS. We believe the current valuation is attractive with limited downside risk*

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**Stock Data (8100 HK)**

Rating	Not Rated
Price (HK\$)	0.145
Target Price (HK\$)	n.a.
12m Price Range (HK\$)	0.112-0.424
Market cap. (HK\$m)	237.1
Daily t/o (HK\$m)	3.1
Free float (%)	78.2

Source: Bloomberg

**Expanding its business through M&A:** M Dream Inworld Limited (MDI) is mainly engaged in four lines of business: i) online distribution of personal computer performance software, anti-virus software, mobile phone applications and toolbar advertisement, which is operated under Apperience; ii) provision of corporate management solutions and IT contract service, which is operated under E-Perfect; iii) B2C online sales of diverse products, which is operated under FunShare.com; and iv) diversified financial and I.T. platform, which is operated under Get M dream. These businesses are all acquired between FY12/13 and FY12/14, and will see their revenue contribution to the company from FY12/15.

**Promising future of Apperience:** Apperience is under a promising industry in which high growth rate is expected in the following years (worldwide revenue for business endpoint security solutions is expected to grow at the CAGR of 12.3% from 2014E to 2017E), driven by the increase in demand for anti-virus software on the back of the proliferation of broadband Internet usage and increase in interconnection between computers. As a niche player in the computer anti-virus industry, we believe Apperience will be a beneficiary of the trend. Also, Apperience has set a profit target of USD10.0m per year in the following 2 years after its acquisition. We believe that the company will record net profit of at least USD5.05m (approximately HKD39.2m) from Apperience from April 2014 to April 2015. Together with the profit contribution from its other lines of businesses, we estimate the company will record approximately HKD50.0m to HK60.0m of net profit in FY12/14E.

**A cash company with BVPS significantly higher than current stock price:** As of 30 June 2014, the company was in a net cash position of HKD67.0m, with a book value per share (BVPS) of HKD0.42, which is 189.7% higher than the current price, i.e., HKD0.145 per share as of Oct 16, 2014. Even taking the dilution effect into account (including the potential conversion of CB, and the issue of new performance shares), the diluted BVPS was HKD0.31, which is still 113.8% higher than the current price. Valuation wise, the company is trading at a prospective P/E of 4.0x to 4.7x for FY12/14, which is significantly lower than its peers. We believe the current valuation is attractive with limited downside risk.

**Figure 1: Financials and valuation**

	FY12/11	FY12/12	FY12/13	1H FY12/14
<b>Total revenue (HKD m)</b>	<b>3.6</b>	<b>4.1</b>	<b>92.1</b>	<b>80.4</b>
Revenue growth (YoY)	-4.3%	13.8%	2126.4%	185.7%
<b>Gross profit (HKD m)</b>	<b>3.4</b>	<b>3.9</b>	<b>74.1</b>	<b>63.1</b>
PBT growth (YoY)	-56.4%	487.8%	578.9%	169.2%
<b>Net profit (HKD m)</b>	<b>(6.1)</b>	<b>(26.6)</b>	<b>(183.2)</b>	<b>72.3</b>
Net profit growth (YoY)	-53.4%	336.1%	679.7%	-
EPS (RMB)	<b>(0.55)</b>	<b>(2.13)</b>	<b>(9.52)</b>	<b>4.39</b>
P/E (x)	-	-	-	-
P/B (x)	0.3	0.3	0.3	0.3

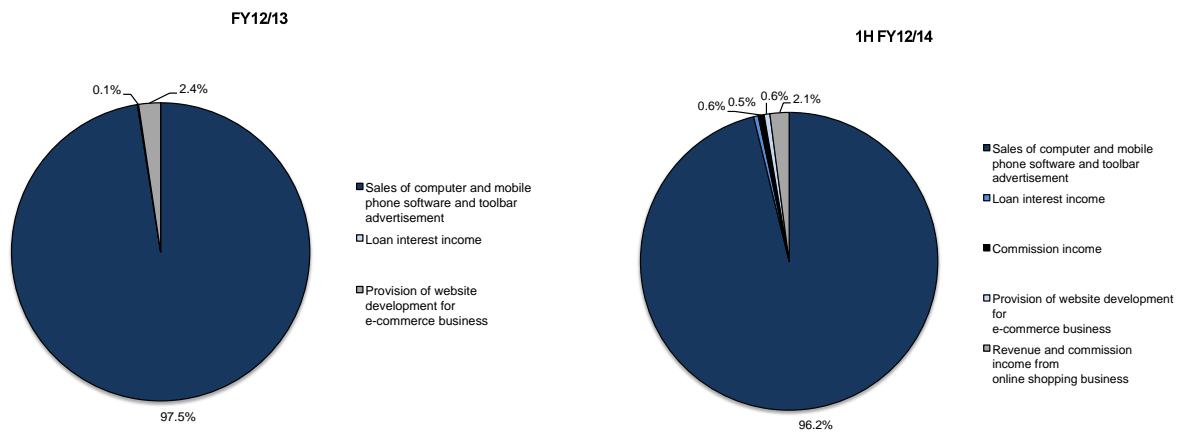
Source: Company data

Please refer to important disclosures at the end of this report

**Company Background**

M Dream Inworld Limited (MDI) is mainly engaged in four lines of business: i) online distribution of personal computer performance software, anti-virus software, mobile phone applications and toolbar advertisement, which is operated under Apperience; ii) provision of corporate management solutions and IT contract service, which is operated under E-Perfect; iii) B2C online sales of diverse products, which is operated under FunShare.com; and iv) diversified financial and I.T. platform, which is operated under Get M dream. Sales of computer and mobile phone software and toolbar advertisement is the main revenue source of the company, generating 97.5% and 96.2% of its total revenue in FY12/13 and 1H FY12/14, respectively.

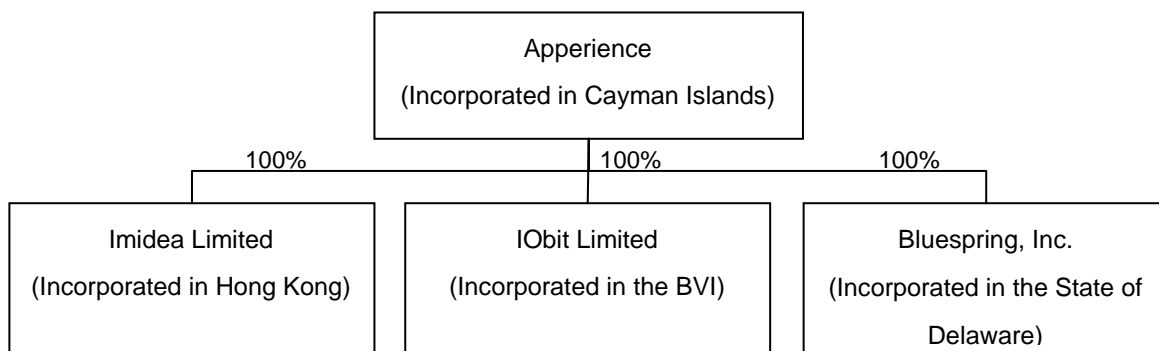
**Figure 2. Revenue breakdown by segments**



Source: Company data

**Online distribution of software:** MDI started its online distribution of software business in FY12/13, after it acquired 50.5% equity interest in Apperience with the maximum consideration of HKD549.0m in April during that year. Apperience is mainly engaged in the research, development and distribution of software for personal computer performance and anti-virus software, as well as toolbar advertisement and mobile applications, which are available for download by customers online worldwide. Currently, it has 3 wholly-owned subsidiaries, namely Imidea Limited, IObit Limited and Bluespring Incorporated. While Imidea Limited is mainly engaged in the online software development and retail business, the other two companies are investment holding companies (See Figure 3).

**Figure 3. Corporate structure of Apperience**



Source: Company data

Apperience’s major products include Advanced SystemCare, Smart Defrag and IObit. Advanced SystemCare is the flagship product created by Apperience, which is a system utility software helping users protect their personal computers from spyware and virus, detect and solve issues regarding computer security and performance.

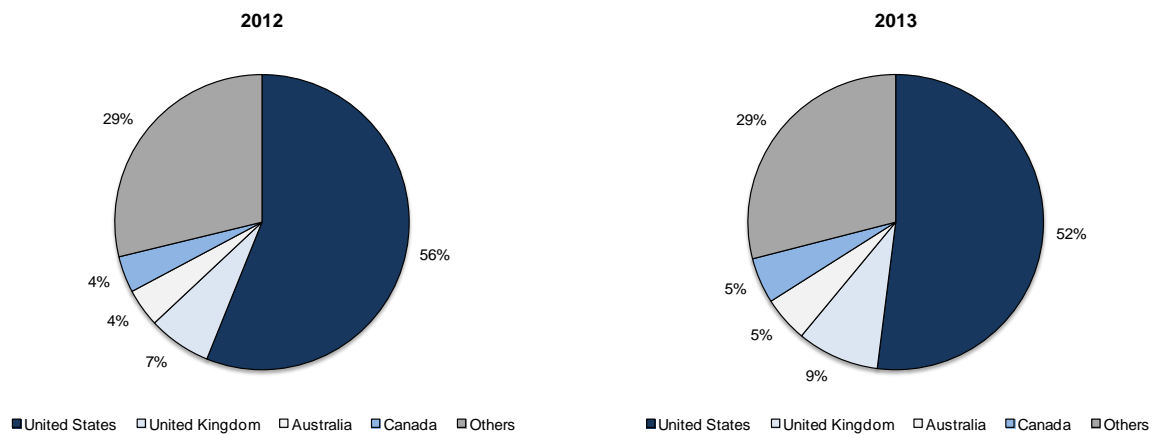
Figure 4. A snapshot of the operating system of Advanced SystemCare



Source: SBI China Research

The latest version of Advanced SystemCare, i.e., version 6, has 1.2m accumulative paid subscribers worldwide. According to the internal sales database of Apperience, there are over 6.8m free and paid active users (the number of users who have used the product at least 1 time in that month) as at 31 Dec 2013, most of which are from the U.S and U.K.

Figure 5. Geographic segmentation paid subscribers of Apperience



Source: Company data

In FY12/13 and 1H FY12/14, total revenue of the company's software business was approximately HKD89.8m and HKD77.3m, and the corresponding segment profit before the impairment of goodwill was HKD55.8m and HKD42.0 respectively. It is worth noting that the acquisition of Apperience actually comes with a profit target of USD10.0m per year for the 24 months after the acquisition, i.e., from Apr 2013 to Apr 2015. With 50.5% equity interest in Apperience, the company will be entitled to a net profit of USD5.05m (approximately HKD40m) each year. In case Apperience's full year profit falls short of its target, the performance shares (as a part of the consideration) to be issued will be reduced on a pro-rata basis.

**Provision of corporate management solutions and IT contract service:** In June 2014, MDI announced that it has entered into a S&P agreement with EPRO System (a wholly-owned subsidiary of DX.com) regarding the acquisition of 100.0% equity interest in e-Perfect IT Limited, which is mainly engaged in i) IT consulting service; ii) re-selling of hardware and software in HK; iii) providing corporate management solutions and IT contract service, which includes Centralized Clinic Management System, Corporate Task Management System and Corporate Human Resources Management System. The respective functions of the systems are shown in figure 6.


The acquisition was completed in July 2014 with a total consideration of HKD48.0m, settled in 186.0m shares at the issue price of HKD0.258 per share. As the company recorded net profit after tax of HKD2.6m in FY12/13, the consideration represents a historical P/E of 18.3x for FY12/13.

Figure 6. Major business of e-Perfect

Type of service	Functions
Centralized Clinic Management System	A one-stop system includes registration, booking, consultation record, drug management, receipt printing, etc.
Corporate Task Management System	For processing project track record and progressing report
Corporate Human Resources Management System	For managing staff records, contracts, leave calculation, payroll calculation, tax application and other records

Source: Company data

Figure 7. Major business of e-Perfect



**Products**

e-Perfect furnishes you with easy-to-use and versatile products including general office automation system for HR, task management as well as specific solutions for clinic operation.

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**Successful Cases**

e-Perfect offers our client with tailor-made solutions that cater their distinctive and unique requirements and streamlined their daily operations.

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**Outsourcing Services**

e-Perfect provides professional outsourcing services that meets your project management and IT infrastructure needs. Productivity of your IT as well as business environment can be greatly improved.

[Click here for details >>>>](#)

Source: Company data

**Diversified financial and I.T. platform.** On March 28<sup>th</sup> this year, the company has signed an MOU in relation to the proposed acquisition of the entire issued shares of GET Mdream Wealth Management Ltd. ("GET Mdream"). GET Mdream is a company based in Hong Kong with limited liability and was previously a licensed corporation to operate businesses in Type 4 (advising on securities) regulated activities under the Securities and Futures Ordinance. However, the company cancelled their Type 4 license afterwards. In addition, GET Mdream is also registered as a member of the Professional Insurance Brokers Association to carry out long term insurance and general insurance lines of business. It is principally engaged in insurance and MPF schemes brokerage business. The acquisition has been completed on April 2<sup>nd</sup> 2014 with the total consideration of HKD1.0m.

We think the acquisition represents an opportunity for MDI to develop an online trading platform for insurance-related investment products. It also enables the company to explore more opportunities to develop new businesses in establishing an internet platform for financial products trading and provision of independent financial advisory services.

**B2C online sales of diverse products.** On April 8<sup>th</sup> 2014, MDI entered into a subscription agreement in relation to a proposed subscription of 77.0% of the enlarged issued share capital of Lujolujo Asia Ltd, which is principally engaged in online retail and advertising business under the name of "Funshare.com". The website provides an online shopping platform in which the promotions and marketing of certain goods can be launched. Currently, the number of Funshare.com's members, fans and clients reachable by email exceeds 100,000, and around 77.0% of active users have high spending power and are aged 18-44.

The acquisition has been completed with the total consideration of HKD14.0m on April 28<sup>th</sup>. The company recorded revenue and net loss of HKD13.3m and HKD1.8m in FY12/13.

After acquiring Lujolujo, we think MDI will benefit from accessing to the users of the online shopping platform by promoting MDI's products to potential clients. Meanwhile, the synergistic effect with the existing customer base of Apperience Corporation can be achieved.

Figure 8. Funshare website



Source: Company data

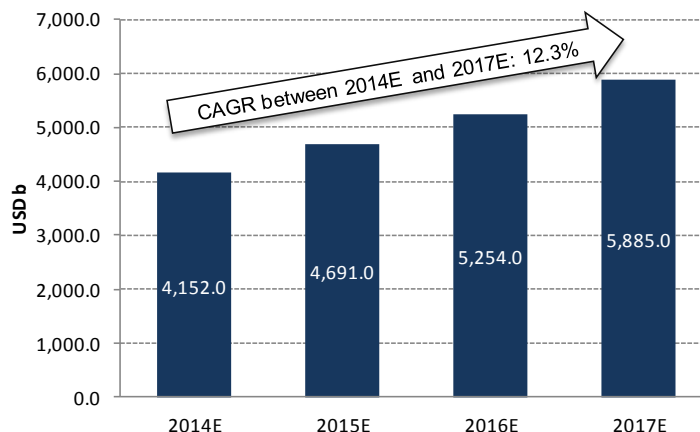
**Our view**

**Promising future of Apperience.** MDI acquired 50.5% equity interest in Apperience in early 2013. As Apperience has set a profit of target USD10.0m per year in the following 2 years after acquisition, and failing to meet the target will result in a decrease in performance shares issued to original owners of Apperience, we believe that the company will record net profit of at least USD5.05m (approximately HKD39.2m) from Apperience from April 2014 to April 2015. Together with the profit contribution from its other lines of businesses, we estimate the company will record approximately HKD50.0m to HK60.0m in FY12/14E.

Apperience is under a promising industry in which high growth rate is expected in the following years. With the proliferation of broadband Internet usage, more and more computers have been connected together and a large number of data has been exchanged every day, causing an escalating risk of computer virus attack. Therefore, numerous computer software companies have tapped into the market of anti-virus software given the high growth potential in the sector. According to data provided by the Radicati Group, worldwide revenue for business endpoint security solutions is expected to increase at the CAGR of 12.3% from 2014 to 2017, growing from USD4,125.0b in 2014 to USD5,885.0b in 2017 (See Figure 9). As a niche player in computer anti-virus industry, we believe Apperience will be a beneficiary of the trend.

It is also worth noting that the company did not rule out any possibility of a spin off to Apperience in the future.

Figure 9. Endpoint security-revenue forecast from 2014E to 2017E



Source: The Radicati Group

**A cash company with BVPS significantly higher than current stock price.** As of 30 June 2014, the company was in a net cash position of HKD67.0m, with a book value per share (BVPS) of HKD0.42, which is 189.7% higher than the current price, i.e., HKD0.145 per share as of Oct 16, 2014. Even taking the dilution effect into account (including the potential conversion of CB, and the issue of new performance shares), the diluted BVPS was HKD0.31, which is still 113.8% higher than the current price. We believe current valuation is attractive with limited downside risk.

**Synergic effect can be achieved via its diversified business.** Currently, the company is involved in the business of anti-virus software for computer, IT solution, online retail and online trading for insurance investment. Although these businesses are relative new to the company as they are all acquired in the past 2 years, we believe these segments can have synergic effect from each other in the long run. For example, the clients from online-retails can also be shared with Apperience; Similarly, IT solution users also have the demand for the computer protection services. Therefore, potential benefits, including larger client pool, higher marketing efficiency and standardized management, can be achieved.

### Valuation

At a share price of HKD0.145, the company is trading at a prospective P/E of 4.0x to 4.7x for FY12/14 based on our expectation that the company will record a net profit of ~HKD50m and HKD60.0m during the year. Its peers, including Kingsoft (3888 HK), Sinosoft Tech (1297 HK), Sinocom Soft (0299 HK), Kingdee (0268 HK) and Convoy (1019 HK) are on average trading at a historical P/E of 13.6x for FY12/13 and a prospective P/E of 19.3x for FY12/14. We understand that the relatively new business and thus the lack of a track record of MDI after its respective acquisitions is a concern. However, given its BVPS is significantly higher than its current price, and our perception of its profitability and future growth, we are convinced that its current valuation is attractive with minimal downside risk.

Figure 10: Peer comparison

Company	Ticker	Mkt Cap (HK\$ m)	3M avg turnover (HK\$ m)	2013 P/E (x)	2014E P/E (x)	P/book (x)	Net profit (RMB m)	Net Debt/Total Equity
<b>M Dream Inworld</b>	<b>8100.HK</b>	<b>237.1</b>	<b>3.1</b>	<b>0.6</b>	<b>n.a.</b>	<b>0.3</b>	<b>(207.4)</b>	<b>(9.8)</b>
Kingsoft	3888.HK	21,130.1	211.0	23.7	22.4	3.6	670.7	(90.9)
Sinosoft Tech	1297.HK	2,714.8	7.8	18.2	15.7	3.4	100.9	(46.2)
Sinocom Soft	299.HK	948.5	6.4	n.a.	n.a.	1.7	(83.5)	(99.2)
Kingdee International Ltd.	268.HK	5,881.1	44.0	23.0	19.9	2.5	126.4	32.8
Convoy	1019.HK	645.5	4.4	2.7	n.a.	1.2	97.7	(67.8)
Average		5,259.5	46.1	13.6	19.3	2.1	117.5	(46.9)

Source: Bloomberg

\*Average figure does not include MDI

Figure 11. Per share items

	FY12/11	FY12/12	FY12/13	1H FY12/14
Basic EPS (HK cents)	(0.55)	(2.13)	(9.52)	4.39
BVPS (HKD)	0.51	0.44	0.45	0.42

Source: Company data

Figure 12. Income statement (HKD m)

	FY12/11	FY12/12	FY12/13	1H FY12/14
<b>Turnover</b>	<b>3.6</b>	<b>4.1</b>	<b>92.1</b>	<b>80.4</b>
Cost of sales	(0.3)	(0.2)	(18.0)	(17.3)
Gross profit	3.4	3.9	74.1	63.1
Other revenue	1.7	2.1	1.4	0.0
Other gains and losses	1.5	(16.5)	(205.1)	39.8
Selling and administration expenses	(10.8)	(14.4)	(32.2)	(22.8)
Profit from operations	(4.3)	(24.9)	(161.8)	80.1
Finance costs	(0.1)	(1.0)	(14.6)	(0.6)
Profit before taxation	(4.4)	(26.0)	(176.4)	79.5
Income tax	(0.2)	(0.4)	(6.8)	(7.2)
<b>Profit for the year from continuing operations</b>	<b>(4.6)</b>	<b>(26.3)</b>	<b>(183.2)</b>	<b>72.3</b>
Profit for the year from discontinued operations	(1.5)	(0.3)	0.0	0.0
Total profit	(6.1)	(26.6)	(183.2)	72.3
<b>Profit attributable to shareholders</b>	<b>(6.10)</b>	<b>(26.60)</b>	<b>(207.41)</b>	<b>55.10</b>

Source: Company data

Figure 13. Balance sheet (HKD m)

	FY12/11	FY12/12	FY12/13	1H FY12/14
<b>Non-current assets</b>				
Fixed assets	0.2	7.9	1.0	0.9
Goodwill	23.2	2.4	500.2	508.5
Others	1.6	3.6	152.8	115.3
<b>Total non-current assets</b>	<b>25.1</b>	<b>13.9</b>	<b>653.9</b>	<b>624.7</b>
<b>Current assets</b>				
Trade and other receivables	13.5	6.3	25.8	40.4
Cash and cash equivalent	118.1	140.7	70.4	78.0
Others	5.0	0.0	0.6	44.5
<b>Total current assets</b>	<b>136.6</b>	<b>147.0</b>	<b>96.8</b>	<b>163.0</b>
<b>Current liabilities</b>				
Trade and other payable	(2.9)	(5.2)	(4.9)	(16.5)
Current tax liability	(0.2)	(0.1)	(35.0)	(42.7)
Other	(0.2)	(17.6)	(52.0)	(38.3)
<b>Total current liabilities</b>	<b>(3.3)</b>	<b>(22.9)</b>	<b>(92.0)</b>	<b>(97.4)</b>
<b>Non current liabilities</b>	<b>0.0</b>	<b>0.0</b>	<b>(69.5)</b>	<b>(16.9)</b>
<b>Net assets</b>	<b>158.4</b>	<b>138.1</b>	<b>589.3</b>	<b>673.3</b>
<b>Total Equity</b>	<b>158.4</b>	<b>138.1</b>	<b>589.3</b>	<b>673.3</b>

Source: Company data

Figure 14. Cash flow statement (HKD m)

	FY12/11	FY12/12	FY12/13	1H FY12/14
Net cash generated from operating activities	(3.8)	(9.2)	28.2	50.5
Net cash flow from investing activities	(15.8)	9.1	(80.0)	(42.9)
Net cash flow from financing activities	124.7	22.7	(18.5)	0.3
Net increase in cash and cash equivalent	105.1	22.6	(70.3)	7.9
Cash and cash equivalents at the beginning of the year	12.9	118.1	140.7	70.4
Effect of foreign exchange rate changes	0.2	0.0	(0.1)	(0.1)
<b>Cash and cash equivalents at the end of the year</b>	<b>118.1</b>	<b>140.7</b>	<b>70.4</b>	<b>78.2</b>

Source: Company data



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<b>STRONG BUY</b>	: absolute upside of >50% over the next three months
<b>BUY</b>	: absolute upside of >10% over the next six months
<b>HOLD</b>	: absolute return of -10% to +10% over the next six months
<b>SELL</b>	: absolute downside of >10% over the next six months

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**Disclosure of interest:** SBI China Capital was the placing agent of the company in October 2014.

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