

Animoca Brands Corp

Information technology

Games developer

Animoca Brands Corporation (AB1) is headquartered in Hong Kong It listed on ASX in December 2014 using the shell company Black Fire Minerals. AB1 was established as a spin-off from Appionics (known by the brand “Animoca”) in 2014. AB1 raised A\$2.4m (12m shares at A\$0.20 per share). Appionics had been developing mobile games for smartphones and tablets using both Apple’s iOS and Android platforms since 2011. AB1 also publishes and offers, for download, games developed by third-party studios. The business shows strong revenue growth and is loss making.

The business model

The AB1 games are monetised using the freemium model whereby games are free to download and play. Revenue is earned through advertising and from the sale of virtual items and services that are paid for using online payment methods. AB1 acquires the rights to use characters already popularised and builds games around these, ensuring high levels of recognition. These third-party licence agreements usually involve royalties based on games’ revenues less some defined direct costs. Games distribution is via various app stores. Building a strong user base is dependent on the success of the games, which drives advertising revenue.

Business strategy

The key planks to AB1’s business strategy include the use of licensed brands, expansion of intellectual property (IP), attracting more users by increasing the number of games available on the mobile platform and building more revenue from advertising and subscriptions. Two current initiatives are interactive learning and entertainment products (e-books), which are being sold on a subscription basis and use Mattel content, and a focus on building advertising revenue (26% of revenue).

Valuation: Early stage

The initial signs in terms of MAU (growth in MAU in Q116 from 8.6 million to 13.3 million) are encouraging and the licensing of recognised brands should act as a user drawcard. The April 2016 capital raise of A\$6.5m (priced at A\$0.20 per share) will provide funds for marketing and games development (cash at 31 December 2015 was A\$4.9m). There are 45m performance shares, which convert to ordinary shares if revenue and EBIT targets are met for FY15 and FY16 or on a change of control event. (Current liability at 31 December 2015: A\$2.9m.) The conversion rate is a maximum of one ordinary share per performance share.

Consensus estimates

Year end	Revenue (A\$m)	PBT* (A\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/14	1.0	(7.1)	(9.31)	0.0	N/A	N/A
12/15	7.5	(2.9)	(0.02)	0.0	N/A	N/A
12/16e	15.5	(0.4)	(0.00)	0.0	N/A	N/A
12/17e	22.8	4.5	0.02	0.0	9.1	N/A

Source: Bloomberg

Price **A\$0.23**
Market cap **A\$46m**

Share price graph

Share details

Code AB1
Listing ASX
Shares in issue 200m

Business description

Animoca Brands is a leading global developer and publisher of mobile games. It claims to have **one of the largest licensed brand portfolios in the industry**. As at 31 March 2016 2015 there were 13.3 million monthly active users (MAU) compared with 6.2 million in 2014 (up 145%).

Bull

- Licensing deal with Mattel and games portfolio
- Exposure to the global games market
- Distribution with Tencent (HK:700), the largest social media platform in China

Bear

- MAU base of 13.3 million is still relatively small for a social media company, but not for a gaming company
- Difficulty in protecting IP in Asian markets
- Licences could be terminated or not renewed

Analysts

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