

Huya (HUYA US)

Margin improvement to continue

Huya delivered upbeat 4Q23 results, with revenue 2% above consensus and adj. NPM at -12.4% (vs. consensus of -13.9%). Looking into FY24E, we suggest to focus on its margin improvement and game monetization from more titles cooperation. We forecast stable topline YoY in FY24E, with advertising & other revenues at triple-digit-growth YoY. We are positive on its FY24E margin outlook (forecasting adj. NPM at 1.9%), supported by stringent opex and rising new business (with higher GPM). Huya will be a defensive name for upcoming fundamental improvement, attractive valuation, active share repurchases and dividends program. We slightly raised its adj. NP by 0.5%-19% in FY24-25E, with unchanged TP at US\$6.8.

■ **Better-than-feared 4Q23 with special dividend.** 4Q23 revenue declined 28% YoY (2% above consensus), in which YoY livestreaming -32% YoY and others +29% YoY. The decline of livestreaming was largely in line, for proactive business adjustments. Advertising and other revenues beat our estimates by 54%, on faster ramp-up of game advertising and distribution services. Bottom line came out at -RMB190mn, better than consensus of -RMB209mn, backed by prudent opex control. By 2023, Huya repurchased US\$28.8mn of shares, and they declared a special cash dividend totalling US\$150mn.

■ **Margin improvement to continue, with game business on good progress.** We forecast stable topline YoY in FY24E, in which livestreaming -15% YoY and advertising & other revenues at triple-digit-growth YoY. For game business, Huya has cooperated with Tencent in multiple games, including Maple Story Mobile (冒險島), HoK (王者榮耀), DreamStar (元夢之星), etc. We expect more upcoming titles to support robust game-related revenue growth. We are positive on its FY24E margin outlook (forecasting adj. NPM at 1.9%), supported by stringent opex and rising new business (with higher GPM). In the short run, we expect 1Q24E revenue to show low single-digit decline QoQ, with strong ads & other revenue to offset soft livestreaming (mid-to-high single-digit decline). GPM may be relatively stable YoY, while opex will decline YoY. We expect 1Q24E bottom line to be at RMB25mn.

■ **Maintain BUY.** To reflect better margin outlook, we slightly raised its adj. NP by 0.5%-19% in FY24-25E. Our DCF-based TP was unchanged at US\$6.8. Further game monetization may boost the re-rating of Huya ahead.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	9,264	6,994	7,001	7,724	8,264
YoY growth (%)	(18.4)	(24.5)	0.1	10.3	7.0
Adjusted net profit (RMB mn)	(238.3)	119.1	132.4	369.4	410.9
YoY growth (%)	NA	NA	11.1	179.1	11.2
EPS (Adjusted) (RMB)	(0.99)	0.49	0.53	1.47	1.61
Consensus EPS (RMB cents)	NA	NA	0.50	1.33	1.29
P/S (x)	0.81	1.08	1.08	0.98	0.91
P/E (x)	NA	64.7	59.2	21.6	19.7
ROE (%)	(4.1)	(1.9)	0.1	2.1	2.4

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$6.80
(Previous TP)	US\$6.80)
Up/Downside	+54.5%
Current Price	US\$4.40

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Stock Data

Mkt Cap (US\$ mn)	382.8
Avg 3 mths t/o (US\$ mn)	5.5
52w High/Low (US\$)	4.72/2.16
Total Issued Shares (mn)	87.0

Source: FactSet

Shareholding Structure

Morgan Stanley	16.9%
Teachers Insurance & Annuity	8.7%
Asso of Ame	

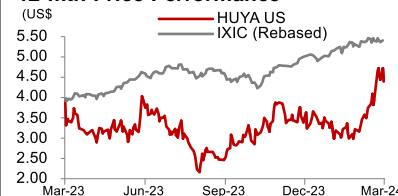
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	39.2%	34.6%
3-mth	25.7%	14.9%
6-mth	73.2%	44.3%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: 4Q23 financial review

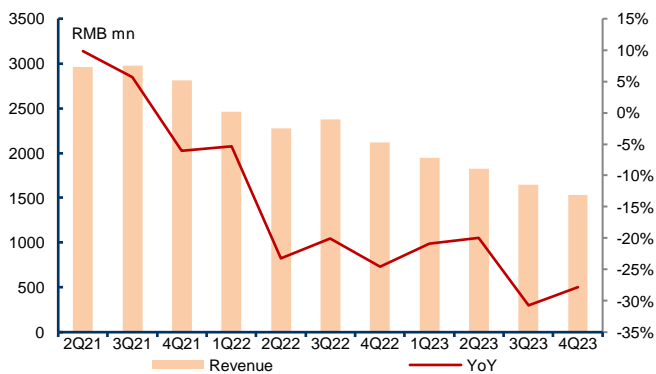
RMB mn	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	QoQ	YoY	Consensus	Diff %	CMBI	Diff %
Revenue	2,976	2,809	2,465	2,275	2,379	2,119	1,949	1,821	1,648	1,530	-7%	-28%	1,506	2%	1,506	2%
Gross profit	504	1	334	219	342	(237)	256	273	228	15	-93%	-106%	14	13%	4	245%
Net profit	524	(313)	(3)	(19)	60	(481)	45	23	12	(275)	NA	-43%	(267)	NA	(323)	NA
Adj. net profit	180	(241.7)	47	6	106	(440)	86	115	103	(190)	NA	-57%	(209)	NA	(213)	NA
Adj. EPS (RMB)	0.75	(1.00)	0.19	0.02	0.44	(1.81)	0.35	0.47	0.42	(0.79)	NA	-57%	(0.84)	NA	(0.86)	NA
Margin (%)																
Gross margin	16.9%	0.0%	13.5%	9.6%	14.4%	-11.2%	13.2%	15.0%	13.9%	1.0%			0.9%		0.3%	
Operating margin	5.2%	-13.8%	-0.1%	-2.5%	2.4%	-23.5%	-0.5%	-0.1%	-1.1%	-20.7%			-10.8%		-16.9%	
Adj. net margin	6.0%	-8.6%	1.9%	0.3%	4.5%	-20.8%	4.4%	6.3%	6.3%	-12.4%			-13.9%		-14.2%	
Growth (%)																
Revenue (YoY)	5.7%	-6.1%	-5.4%	-23.2%	-20.1%	-24.5%	-20.9%	-19.9%	-30.7%	-27.8%			-22.7%		-28.4%	
Revenue (QoQ)	0.4%	-5.6%	-12.3%	-7.7%	4.5%	-10.9%	-8.0%	-6.6%	-9.5%	-7.2%			-8.6%		-8.6%	
Gross profit	-18.8%	-99.8%	-35.1%	-62.3%	-32.1%	NA	-23.1%	24.6%	-33.3%	-106.4%			NA		-101.5%	
Adj. net profit	-50.2%	NA	-82.5%	-97.7%	-41.1%	NA	83.5%	1860.3%	-2.6%	NA			NA		-51.5%	

Source: Company data, Bloomberg

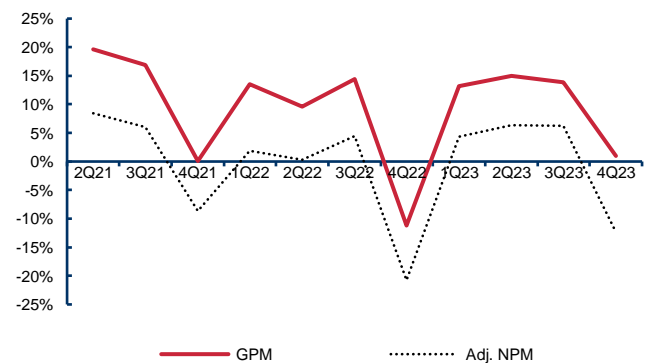
Figure 2: 4Q23 revenue breakdown

	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	QoQ	YoY		
Revenue (RMB mn)	2,976	2,809	2,465	2,275	2,379	2,119	1,949	1,821	1,648	1,530	-7.2%	-27.8%		
Live broadcasting			2,602	2,613	2,152	2,052	2,017	1,975	1,860	1,716	1,532	1,343	-12.3%	-32.0%
Others			374	196	313	223	361	144	89	106	116	186	60.5%	29.2%

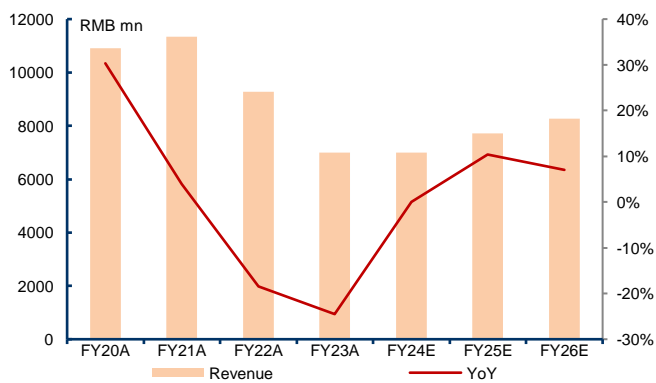
Source: Company data

Figure 3: Quarterly revenue

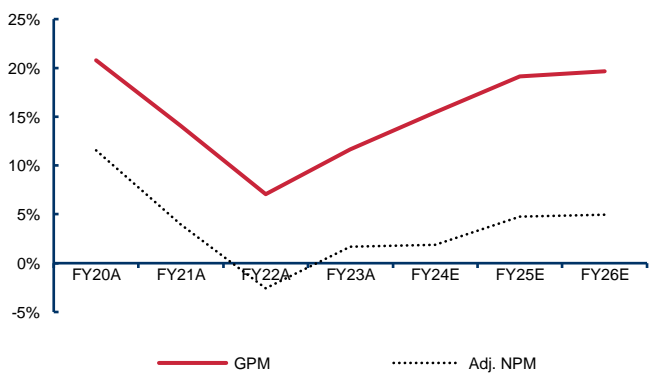
Source: Company data, CMBIGM

Figure 4: Quarterly margin

Source: Company data, CMBIGM

Figure 5: Annual revenue estimates

Source: Company data, CMBIGM estimates

Figure 6: Annual margin estimates

Source: Company data, CMBIGM estimates

Figure 7: CMBIGM estimates vs consensus

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	7,001	7,724	8,264	6,623	7,352	7,037	5.7%	5.1%	17.4%
Gross profit	1,083	1,477	1,622	875	1,188	1,074	23.8%	24.4%	51.1%
Operating profit	(54)	234	304	(254)	(8)	36	NA	NA	736.3%
Adj. net profit	132	369	411	130	351	323	1.8%	5.2%	27.2%
EPS (RMB)	0.53	1.47	1.61	0.50	1.33	1.29	7.3%	10.8%	24.7%
Gross margin	15.5%	19.1%	19.6%	13.2%	16.2%	15.3%	+2.3ppts	+3.0ppts	+4.4ppts
Operating margin	-0.8%	3.0%	3.7%	-3.8%	-0.1%	0.5%	+3.1ppts	+3.1ppts	+3.2ppts
Net margin	1.9%	4.8%	5.0%	2.0%	4.8%	4.6%	-0.1ppts	+0.0ppts	+0.4ppts

Source: Company data, Bloomberg, CMBIGM estimates

Figure 8: Earnings revision

RMB mn, Dec-YE	CMBIGM			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	7,001	7,724	8,264	6,926	7,725	NA	1.1%	0.0%	NA
Gross profit	1,083	1,477	1,622	1,073	1,584	NA	1.0%	-6.7%	NA
Operating profit	(54)	234	304	(73)	248	NA	NA	-5.6%	NA
Adj. net profit	132	369	411	111	367	NA	18.9%	0.5%	NA
EPS (RMB)	0.53	1.47	1.61	0.45	1.45	NA	19.9%	1.3%	NA
Gross margin	15.5%	19.1%	19.6%	15.5%	20.5%	NA	-0.0ppts	-1.4ppts	NA
Operating margin	-0.8%	3.0%	3.7%	-1.1%	3.2%	NA	+0.3ppts	-0.2ppts	NA
Net margin	1.9%	4.8%	5.0%	1.6%	4.8%	NA	+0.3ppts	+0.0ppts	NA

Source: Company data, CMBIGM estimates

Figure 9: DCF valuation

DCF valuation (RMB mn)	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	(54)	234	304	328	349	367	382	397	410
Tax	(18)	(49)	(54)	(59)	(63)	(66)	(69)	(71)	(74)
D&A	151	166	182	184	186	188	190	191	193
Working capital	(232)	64	69	62	56	50	45	40	36
CAPEX	(66)	(69)	(73)	(77)	(80)	(84)	(89)	(93)	(98)
FCF	(220)	345	427	438	447	454	459	464	468
FCF Growth	NA	NA	24%	3%	2%	2%	1%	1%	1%
Terminal Value									3,898
PV (FCF+ Terminal Value)	(220)	302	327	294	262	233	206	183	1,504

Assumptions

WACC	14.2%
Tax rate	20.0%
Risk free rate	3.6%
Cost of debt	0.0%
Beta	1.30
Market risk return	11.8%
Terminal growth rate	2.0%

Equity Value

PV	2,810
minus: Net cash	(9,312)
minus: Minority Interest	0
Equity Value	12,123
Shares (mn)	243
Target Price (US\$) based on DCF	6.8

		WACC				
		12.2%	13.2%	14.2%	15.2%	16.2%
Growth	0.5%	7.1	6.9	6.7	6.6	6.5
	1.0%	7.1	6.9	6.8	6.6	6.5
	1.5%	7.1	7.0	6.8	6.7	6.5
	2.0%	7.2	7.0	6.8	6.7	6.6
	2.5%	7.3	7.0	6.9	6.7	6.6
	3.0%	7.3	7.1	6.9	6.8	6.6
3.5%	7.4	7.2	7.0	6.8	6.6	

Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	11,351	9,264	6,994	7,001	7,724	8,264
Cost of goods sold	(9,751)	(8,610)	(6,179)	(5,918)	(6,246)	(6,641)
Gross profit	1,600	655	815	1,083	1,477	1,622
Operating expenses	(1,905)	(1,484)	(1,340)	(1,325)	(1,441)	(1,524)
Selling expense	(760)	(483)	(441)	(410)	(491)	(541)
Admin expense	(327)	(320)	(321)	(336)	(345)	(352)
R&D expense	(819)	(680)	(579)	(578)	(605)	(631)
Operating profit	(30)	(663)	(444)	(172)	103	164
Other income	275	166	81	69	67	66
Gain/loss on financial assets at FVTPL	44	8	0	0	0	0
Interest income	247	298	480	205	185	162
Interest expense	0	0	0	0	0	0
Pre-tax profit	260	(414)	(191)	32	288	326
Income tax	(55)	(28)	(13)	(18)	(49)	(54)
Net profit	583	(443)	(205)	14	239	271
Adjusted net profit	454	(238)	119	132	369	411

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	11,916	10,454	8,134	10,083	10,539	11,048
Cash & equivalents	1,791	655	512	2,461	2,911	3,415
Account receivables	88	76	64	64	71	76
ST bank deposits	9,168	9,021	6,851	6,851	6,851	6,851
Other current assets	869	701	706	706	706	706
Non-current assets	1,339	3,292	4,774	1,756	1,740	1,716
PP&E	80	201	327	307	283	252
Deferred income tax	20	0	0	0	0	0
Intangibles	63	84	58	162	174	184
Other non-current assets	(632)	(2,876)	(4,452)	(1,519)	(1,491)	(1,445)
Total assets	13,255	13,746	12,924	11,839	12,279	12,764
Current liabilities	2,576	2,201	2,162	1,929	2,000	2,074
Short-term borrowings	1,845	1,592	1,475	1,230	1,309	1,391
Account payables	13	23	15	14	15	16
Tax payable	0	0	0	0	0	0
Other current liabilities	718	586	672	685	676	667
Non-current liabilities	169	128	138	138	138	138
Deferred income	119	73	48	48	48	48
Other non-current liabilities	50	55	90	90	90	90
Total liabilities	2,745	2,329	2,300	2,067	2,138	2,212
Capital surplus	11,764	11,923	12,000	12,118	12,249	12,388
Total shareholders equity	10,510	10,843	10,625	10,963	11,333	11,744

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	583	(443)	(205)	14	239	271
Depreciation & amortization	64	71	78	86	94	104
Tax paid	(51)	23	21	0	0	0
Change in working capital	(17)	12	12	(0)	(7)	(5)
Others	660	740	(387)	(89)	(275)	230
Net cash from operations	1,240	403	(481)	10	51	600
Investing						
Capital expenditure	(57)	(60)	(63)	(66)	(69)	(73)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Net proceeds from disposal of short-term investments	(2,377)	(666)	2,167	0	0	0
Others	(67)	(70)	(74)	(77)	(81)	(85)
Net cash from investing	(2,501)	(796)	2,031	(143)	(151)	(158)
Financing						
Proceeds from share issues	0	0	0	0	0	0
Others	595	0	0	0	0	0
Net cash from financing	595	0	0	0	0	0
Net change in cash						
Cash at the beginning of the year	3,294	1,791	513	2,554	2,461	2,911
Exchange difference	0	0	0	0	0	0
Others	0	0	0	0	0	0
Cash at the end of the year	1,791	513	2,554	2,461	2,911	3,415
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	4.0%	(18.4%)	(24.5%)	0.1%	10.3%	7.0%
Gross profit	(29.4%)	(59.1%)	24.5%	32.9%	36.4%	9.8%
Operating profit	na	na	na	na	na	59.0%
Net profit	(34.0%)	na	na	na	1,594.0%	13.5%
Adj. net profit	(64.0%)	na	na	11.1%	179.1%	11.2%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	14.1%	7.1%	11.7%	15.5%	19.1%	19.6%
Operating margin	(0.3%)	(7.2%)	(6.3%)	(2.5%)	1.3%	2.0%
Adj. net profit margin	4.0%	(2.6%)	1.7%	1.9%	4.8%	5.0%
Return on equity (ROE)	5.8%	(4.1%)	(1.9%)	0.1%	2.1%	2.4%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	0.0	0.1	0.1	(0.1)	(0.1)	(0.2)
Current ratio (x)	4.6	4.7	3.8	5.2	5.3	5.3
Receivable turnover days	2.6	3.2	3.7	3.4	3.2	3.2
Payable turnover days	0.4	0.7	1.1	0.9	0.9	0.9
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	16.9	NA	64.7	59.2	21.6	19.7
P/S	0.66	0.81	1.08	1.08	0.98	0.91
P/B	2.3	0.6	0.6	0.7	0.7	0.7

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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