

HUYA (HUYA US)

Better margin improvement ahead

Despite soft seasonality and epidemic impact, Huya delivered better-than-feared 1Q23 results (with upbeat rev and better margin). 2Q23E guidance was mixed on muted livestreaming (time spent shifted to offline on holidays and conservative operation) but better ads & margin. We forecast 2Q23E rev stable QoQ (1% below consensus), with adj. NPM at 1.4% (vs. consensus at -0.4%). We suggest to look into its 2H23E recovery, backed by: 1) a rebase after the regulatory change in livestreaming in June last year; 2) gradual macro recovery; and 3) new blockbuster game launch. We keep positive on its margin improvement ahead, and lift its adj. NPM by 0.7ppts in FY23E to reflect better GPM. Our rev forecast was barely changed, with TP at US\$6.9. The stock is trading below its net cash position, and its livestreaming to bottom out might help its re-rating ahead, in our view.

- **Better-than-feared 1Q23.** 1Q23 rev declined 21% YoY to RMB1.95bn, 5%/6% above consensus/our estimates. Livestreaming was better-than-feared (-13.6% YoY), mainly on effective campaign operation in Mar. Ads and others -71.4% YoY, due to lower content sublicensing rev. Non-GAAP GPM was 13.2% (vs. consensus of 10%), mainly attributable to optimized revenue-sharing costs and content costs. Non-GAAP NP recorded at RMB86mn, above consensus of -RMB2mn, backed by higher GPM and opex control.
- **Better margin enhancement ahead.** 2Q23E would be a mixed quarter, with muted livestreaming rev but better ads & margin. For the user metrics, MAU might keep stable QoQ, while paying users would slightly decline for China's reopening. We forecast 2Q23E rev flat QoQ, as livestreaming recovery would be disrupted by conservative operation and time spent shifted to offline activities on holidays. Ads saw rising budget with China's reopening and more game launches. 2Q23E would be another profitable quarter (vs. consensus of net loss position), with estimated GPM at 11%. We keep our full-year rev forecast unchanged (-10% YoY, in which livestreaming rev -5% YoY), and suggest investors to look into 2H23E livestreaming recovery, backed by: 1) a rebase after the regulatory change; 2) strong seasonality; and 3) new blockbuster game launch to boost user engagement. We are more positive on its margin improvement, with better GPM and continuous cost control.
- **Maintain BUY.** We slightly lifted FY23E adj. NPM by 0.7ppts to reflect better GPM, while rev forecast barely changed. Our DCF-based TP was unchanged at US\$6.9 (implying 1.4x FY23E P/S, still below average). The stock is trading below its net cash position, and we expect its rev resuming growth may help its re-rating ahead.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY 25E
Revenue (RMB mn)	11,351	9,220	8,327	8,722	9,051
YoY growth (%)	4.0	(18.8)	(9.7)	4.7	3.8
Adj. net income (RMB mn)	454	(282)	(91)	45	178
Adj. EPS (RMB)	1.88	(1.2)	(0.4)	0.18	0.70
YoY growth (%)	(64.5)	NA	NA	NA	298.6
Consensus EPS (RMB)	NA	NA	(0.4)	0.4	0.7
P/E (x)	12.3	NA	NA	129.0	32.9
P/S (x)	0.49	0.60	0.67	0.64	0.61
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	4.3	(2.6)	(0.8)	0.4	1.6
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$6.9
(Previous TP)	US\$6.9)
Up/Downside	+115.6%
Current Price	US\$3.2

China Internet Sector

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Stock Data

Mkt Cap (US\$ mn)	765
Avg 3 mths t/o (US\$ mn)	3.73
52w High/Low (US\$)	6.50/1.64
Total Issued Shares (mn)	90
Source: Bloomberg	

Shareholding Structure

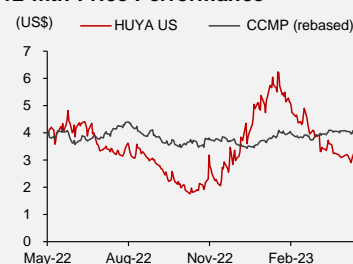
Morgan Stanley	16.57%
Teachers Insurance & Annuity	10.82%
Asso of America	
Goldman Sachs	7.94%
Source: Bloomberg	

Share Performance

	Absolute	Relative
1-mth	3.2%	1.9%
3-mth	-37.8%	-39.5%
6-mth	38.7%	26.4%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Figure 1: 1Q23 financial review

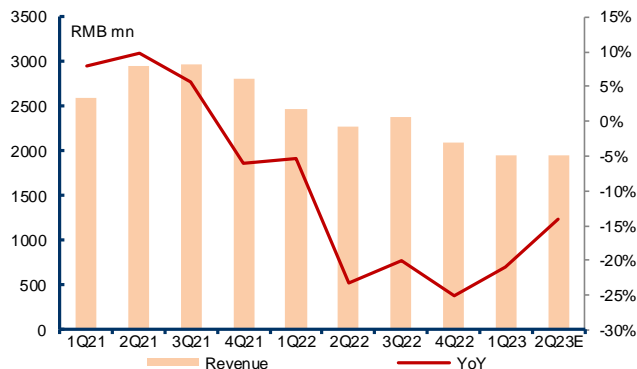
RMB mn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	QoQ	YoY	Consensus	Diff %
Revenue	2,605	2,962	2,976	2,809	2,465	2,275	2,379	2,102	1,949	-7%	-21%	1,849	5%
Gross profit	514	581	504	1	334	219	342	(284)	256	NA	-23%	185	39%
Net profit	186	186	524	(313)	(3)	(19)	60	(524)	45	NA	NA	(31)	NA
Adj. net profit	266	250	180	(241.7)	47	6	106	(440)	86	NA	84%	(2)	NA
Adj. EPS (RMB)	1.10	1.04	0.75	(1.00)	0.19	0.02	0.44	(1.81)	0.35	NA	79%	(0.03)	NA
Margin (%)													
Gross margin	19.7%	19.6%	16.9%	0.0%	13.5%	9.6%	14.4%	-13.5%	13.2%			10.0%	
Operating margin	9.3%	8.4%	5.2%	-13.8%	-0.1%	-2.5%	2.4%	-26.1%	-0.5%			-3.9%	
Adj. net margin	10.2%	8.4%	6.0%	-8.6%	1.9%	0.3%	4.5%	-20.9%	4.4%			-0.1%	
Growth (%)													
Revenue (YoY)	8.0%	9.8%	5.7%	-6.1%	-5.4%	-23.2%	-20.1%	-25.2%	-20.9%			-25.0%	
Revenue (QoQ)	-12.9%	13.7%	0.4%	-5.6%	-12.3%	-7.7%	4.5%	-11.6%	-7.3%			-12.1%	
Gross profit	8.2%	1.1%	-18.8%	-99.8%	-35.1%	-62.3%	-32.1%	NA	-23.1%			-44.6%	
Adj. net profit	0.3%	-24.4%	-50.2%	NA	-82.5%	-97.7%	-41.1%	NA	83.5%			NA	

Source: Company data, Bloomberg, CMBIGM estimates

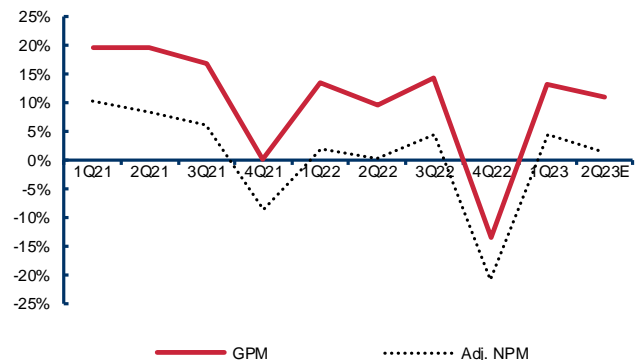
Figure 2: 1Q23 revenue breakdown

	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	QoQ	YoY
Revenue (RMB mn)	2,605	2,962	2,976	2,809	2,465	2,275	2,379	2,102	1,949	-7.3%	-20.9%
Live broadcasting	2,392	2,579	2,602	2,613	2,152	2,052	2,017	1,975	1,860	-5.8%	-13.6%
Others	213	383	374	196	313	223	361	127	89	-29.7%	-71.4%

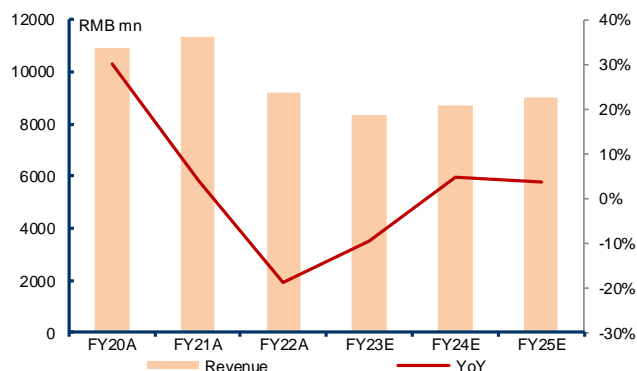
Source: Company data, CMBIGM estimates

Figure 3: Quarterly rev estimates

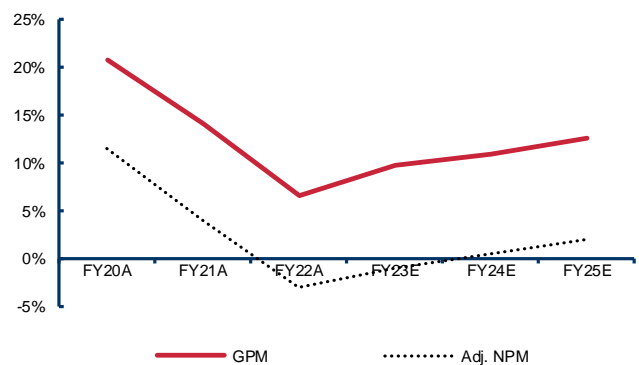
Source: Company data, CMBIGM estimates

Figure 4: Quarterly margin estimates

Source: Company data, CMBIGM estimates

Figure 5: Annual rev estimates

Source: Company data, CMBIGM estimates

Figure 6: Annual margin estimates

Source: Company data, CMBIGM estimates

We keep its FY23E-25E rev unchanged, but lifted its adj. NPM by 0.7ppts in FY23E to reflect better GPM. FY24-25E margin forecast was barely changed, thus our DCF-based TP maintained at US\$6.9, implying 1.4x FY23E P/S (below industrial average).

Figure 7: CMBIGM estimates vs consensus

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	8,327	8,722	9,051	8,231	8,650	9,001	1.2%	0.8%	0.6%
Gross profit	809	954	1,145	728	935	1,022	11.2%	2.1%	12.0%
Operating profit	(311)	(152)	24	(416)	(269)	(59)	NA	NA	NA
Adj. net profit	(91)	45	178	(105)	95	187	NA	-53.3%	-5.0%
EPS (RMB)	(0.37)	0.18	0.70	(0.41)	0.40	0.68	NA	-55.2%	3.5%
Gross margin	9.7%	10.9%	12.7%	8.8%	10.8%	11.4%	+0.9ppts	+0.1ppts	+1.3ppts
Operating margin	-3.7%	-1.7%	0.3%	-5.1%	-3.1%	-0.7%	+1.3ppts	+1.4ppts	+0.9ppts
Net margin	-1.1%	0.5%	2.0%	-1.3%	1.1%	2.1%	+0.2ppts	-0.6ppts	-0.1ppts

Source: Company data, Bloomberg, CMBIGM estimates

Figure 8: Earnings revision

RMB mn, Dec-YE	CMBIGM			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	8,327	8,722	9,051	8,327	8,722	9,051	0.0%	0.0%	0.0%
Gross profit	809	954	1,145	755	954	1,145	7.2%	0.0%	0.0%
Operating profit	(311)	(152)	24	(365)	(152)	24	NA	0.0%	0.0%
Adj. net profit	(91)	45	178	(146)	45	178	NA	0.0%	0.0%
EPS (RMB)	(0.37)	0.18	0.70	(0.59)	0.18	0.70	NA	0.0%	0.0%
Gross margin	9.7%	10.9%	12.7%	9.1%	10.9%	12.7%	+0.7ppts	0.0ppts	0.0ppts
Operating margin	-3.7%	-1.7%	0.3%	-4.4%	-1.7%	0.3%	+0.7ppts	0.0ppts	0.0ppts
Net margin	-1.1%	0.5%	2.0%	-1.8%	0.5%	2.0%	+0.7ppts	0.0ppts	0.0ppts

Source: Company data, CMBIGM estimates

Figure 9: DCF valuation

DCF valuation (RMB mn)										
	2023E	2024E	2025E	2026E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	(311)	(152)	24	136	248	307	351	387	419	447
Tax	0	(8)	(31)	(45)	(58)	(62)	(65)	(66)	(71)	(76)
D&A	137	151	166	182	200	220	242	267	293	323
Working capital	(79)	22	16	11	(0)	1	2	(4)	(3)	(3)
CAPEX	(63)	(66)	(69)	(73)	(77)	(80)	(84)	(89)	(93)	(98)
FCF	(316)	(53)	105	211	314	386	447	496	545	593
FCF Growth	NA	NA	NA	102%	49%	23%	16%	11%	10%	9%
Terminal Value										5,434
PV (FCF+ Terminal Value)	(316)	(47)	80	142	184	198	201	195	188	1,818

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	3.0%

Equity Value	
PV	2,643
minus: Net cash	(9,321)
minus: Minority Interest	0
Equity Value	11,964
Shares (mn)	248
Target Price (US\$) based on DCF	6.9

		WACC				
Growth		12.2%	13.2%	14.2%	15.2%	16.2%
	1.5%	7.2	7.0	6.8	6.6	6.5
	2.0%	7.3	7.0	6.8	6.7	6.5
	2.5%	7.3	7.1	6.9	6.7	6.5
	3.0%	7.4	7.1	6.9	6.7	6.6
	3.5%	7.5	7.2	7.0	6.8	6.6
	4.0%	7.6	7.3	7.0	6.8	6.6
	4.5%	7.7	7.3	7.1	6.9	6.7

Source: Company data, CMBIGM estimates

Figure 10: Peers valuation

Company	Ticker	Mkt cap (USD mn)	Currency	Price	CMBI Rating	CMBI TP	PE			PS			FY23-25 EPS CAGR
							FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	
Huya	HUYA US	825	USD	3	BUY	6.9	NA	129.0	32.9	0.7	0.6	0.6	NA
Game													
Tencent	700 HK	421,749	HKD	345	BUY	455	20.2	17.3	15.1	4.7	4.2	3.8	16%
NetEase	NTES US	57,968	USD	90	BUY	116	17.2	15.3	13.8	3.8	3.5	3.2	12%
XD Inc.	2400 HK	1,434	HKD	23	NA	NA	NA	28.4	16.2	2.3	1.8	1.5	157%
Average							18.7	20.3	15.0	3.6	3.2	2.8	14%
Livestreaming & VAS													
Momo	MOMO US	1,807	USD	10	HOLD	14	6.3	5.8	5.5	1.0	1.0	0.9	6%
YY	YY US	2,119	USD	30	BUY	46	15.0	11.3	9.3	0.9	0.8	0.7	26%
Bilibili	BILI US	8,131	USD	20	BUY	30	NA	NA	49.6	2.3	1.9	1.7	NA
Douyu	DOYU US	337	USD	1	NA	NA	NA	NA	NA	0.4	0.4	0.4	NA
TME	TME US	13,660	USD	8	BUY	11	17.2	16.1	14.2	3.2	3.0	2.8	11%
Mango	300413 CH	8,075	CNY	30	NA	NA	23.1	19.7	18.1	3.4	3.0	2.8	13%
iQIYI	IQ US	5,709	USD	6	BUY	9	18.0	11.9	9.2	1.2	1.1	1.1	34%
Average							15.9	12.9	11.3	1.8	1.6	1.5	14%
Advertising													
Baidu	BIDU US	44,612	USD	128	BUY	196	13.8	12.0	10.4	2.3	2.1	1.9	32%
Weibo	WB US	4,002	USD	17	BUY	29	7.6	6.8	6.2	2.1	1.9	1.8	12%
Average							10.7	9.4	8.3	2.2	2.0	1.8	22%
Global entertainment													
Facebook	META US	612,134	USD	239	NA	NA	19.0	15.6	14.5	4.8	4.4	3.9	18%
Netflix	NFLX US	149,317	USD	336	NA	NA	28.8	22.8	18.9	4.4	3.9	3.5	27%
Snapchat	SNAP US	13,935	USD	9	NA	NA	NA	NA	41.0	3.1	2.7	2.3	NA
Average							23.9	19.2	16.7	4.1	3.7	3.2	22%
Average							16.9	14.0	12.6	2.7	2.4	2.2	17%

Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenues	11,351	9,220	8,327	8,722	9,051
Live broadcasting	10,186	8,196	7,782	8,122	8,404
Others	1,165	1,025	545	600	648
COGS	(9,751)	(8,610)	(7,518)	(7,768)	(7,906)
Gross profit	1,600	611	809	954	1,145
R&D	(819)	(680)	(655)	(641)	(631)
S&M	(760)	(483)	(462)	(484)	(527)
G&A	(327)	(320)	(302)	(294)	(287)
Other income	275	166	158	165	171
Operating profit	(30)	(706)	(452)	(300)	(129)
Fair value change	44	8	-	-	-
Interest income	247	298	220	205	185
Other income and expenses	(1)	(58)	0	(0)	-
Pre-tax Income	260	(458)	(232)	(95)	56
Income Tax	(55)	(28)	-	(8)	(31)
Net profit	583	(487)	(233)	(103)	24
Adj. net profit	454	(282)	(91)	45	178

Cash flow summary

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Net income	583	(487)	(233)	(103)	24
D&A	113	124	137	151	166
Change in WC	(160)	(312)	(79)	22	16
Others	(134)	149	142	149	154
Operating CF	403	(525)	(33)	217	359
Capex	(124)	(130)	(137)	(143)	(151)
Others	(2,377)	(666)	-	-	-
Investing CF	(2,501)	(796)	(137)	(143)	(151)
Issuance of preference shares	-	-	-	-	-
Issuance of common shares	-	-	-	-	-
Others	595	-	-	-	-
Financing CF	595	-	-	-	-
Net change in cash	(1,503)	(1,322)	(170)	74	209
Cash (beg of yr)	3,294	1,791	469	299	373
Fx effect	-	-	-	-	-
Cash (end of yr)	1,791	469	299	373	582

Balance sheet

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Non-current assets	1,339	2,693	1,620	1,613	1,597
Property and equipment	80	201	186	167	142
Right-of-use assets	395	345	345	345	345
Intangible assets	84	58	72	85	94
Others	780	2,090	1,017	1,016	1,016
Current assets	11,916	10,454	10,090	10,168	10,379
Cash, and stricted cash	1,791	655	299	373	582
Accounts and notes receivables	88	76	69	72	75
Short-term deposits	8,352	9,018	9,018	9,018	9,018
Other current asset	1,686	704	704	704	704
Current liabilities	2,745	2,304	2,217	2,242	2,261
Accounts payables	13	23	20	20	21
Deferred revenue	460	446	432	419	404
Accruals	1,845	1,592	1,522	1,560	1,593
Others	427	243	243	243	243
Non-current liabilities	169	103	103	103	103
Lease liabilities	45	9	9	9	9
Deferred revenue	119	73	73	73	73
Deferred tax liabilities	5	21	21	21	21
Shareholders' equity	10,510	10,843	10,752	10,797	10,974

Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Sales mix (%)					
Live broadcasting	89.7	88.9	93.5	93.1	92.8
Others	10.3	11.1	6.5	6.9	7.2
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	4.0	(18.8)	(9.7)	4.7	3.8
Gross profit	(29.4)	(61.8)	32.5	17.9	20.0
EBIT	NA	NA	NA	NA	NA
Adj. net profit	NA	NA	NA	NA	298.6
P&L ratios (%)					
Operating margin	(0.3)	(7.7)	(5.4)	(3.4)	(1.4)
Pre-tax margin	2.3	(5.0)	(2.8)	(1.1)	0.6
Adj. net margin	4.0	(3.1)	(1.1)	0.5	2.0
Effective tax rate	(21.3)	6.1	0.0	8.4	(56.2)
Returns (%)					
ROE	4.3	(2.6)	(0.8)	0.4	1.6
ROA	3.4	(2.1)	(0.8)	0.4	1.5
Per share					
EPS (RMB)	1.9	(1.2)	(0.4)	0.2	0.7
DPS (RMB)	-	-	-	-	-
BVPS (RMB)	43.5	44.9	43.8	43.3	43.3

Source: Company data, CMBIGM estimates

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