

HUYA (HUYA US)

Prudent outlook in 2H22E

We expect HUYA to see soft 2Q22E results, with rev/adj. net profit of RMB2.3bn (-23% YoY)/-RMB49mn. Live streaming would decline 20% YoY, below previous guidance (-17% YoY). Ads and others would drop 44% YoY (in-line with previous guidance) given the lack of esports tournaments and weak gaming ads. We expect GPM at 9.2% (vs. prior 9%) in 2Q22E thanks to disciplined investments in self-produced content. Net loss margin is expected to be 2.2% (vs. prior 3%), due to continuous opex optimization. Looking into FY23E, revenue might recover from low base and margin will enhance thanks to rearrangement of tournament licensing and potentially lower revenue sharing, but challenges may still linger in 2H22E. We trimmed FY22E-24E rev by 1.0-1.1%, to reflect the impact from live streaming adjustment and soft macro. Maintain BUY with lower TP at US\$4.0.

- **Softer-than-expected 2Q22E.** We expect rev -23% YoY and adj. net profit at -RMB49mn. Live streaming would decline 20% YoY, below previous guidance (-17% YoY), mainly on lower paying users and flat ARPPU owing to users' weak gifting willingness, amid soft macro and tightening regulations on virtual gifting. Ads and others rev would drop 44% YoY (in-line with previous guidance) given the lack of esports tournaments and weak gaming ads despite the resumption of license approval. We forecast GPM at 9.2% (vs. prior 9%) in 2Q22E thanks to less investments in self-produced content. Net loss margin is expected to be 2.2% (vs. prior 3%), due to continuous opex optimization.
- **Challenges yet over.** On a full-year basis, rev would show a high single-digit decline YoY in FY22E. Looking into 2H22E, we expect live streaming rev to decline in high single-digit QoQ in 3Q22E, then slightly recover in 4Q22E, factoring in livestreaming adjustments and overseas scaling back, potentially offset by new features to target high-ARPPU users. Ads and others might achieve positive growth in 4Q22E attributable to LPL tournaments.
- **Margin enhancement intact, but with slower pace.** Fixed content cost (LPL tournament licensing) along with contracted rev will weigh on GPM, which is expected to be 6% in FY22E. As such, we expect adj. NPM at -6% in FY22E due to continuous opex optimization. After short-term margin dilution in FY22E, Huya would see gradual margin improvement in FY23E, attributable to rearrangement of tournament licensing and potentially lower revenue sharing.
- **Maintain BUY.** We trimmed FY22E-24E rev by 1.0-1.1%, to reflect impact from live streaming adjustments and soft macro. Maintain BUY with lower TP at US\$4.0 (0.67x FY23E P/S).

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY 24E
Revenue (RMB mn)	10,914	11,351	9,480	9,527	9,772
YoY growth (%)	30.3	4.0	(16.5)	0.5	2.6
Adj. net income (RMB mn)	1,262	833	(561)	(204)	53
Adj. EPS (RMB)	5.29	3.45	(2.28)	(0.82)	0.21
YoY growth (%)	63.6	(34.8)	NA	NA	NA
Consensus EPS (RMB)	NA	NA	(1.78)	0.11	1.00
P/E (x)	5.0	7.7	NA	NA	127.8
P/S (x)	0.59	0.56	0.67	0.67	0.65
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	12.9	7.9	(5.6)	(2.1)	0.5
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

BUY (Maintain)

Target Price	US\$4.0
(Previous TP)	US\$6.0)
Up/Downside	+17.6%
Current Price	US\$3.4

China Internet Sector

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Stock Data

Mkt Cap (US\$ mn)	796
Avg 3 mths t/o (US\$ mn)	6.08
52w High/Low (US\$)	15.25/ 3.04
Total Issued Shares (mn)	87
Source: Bloomberg	

Shareholding Structure

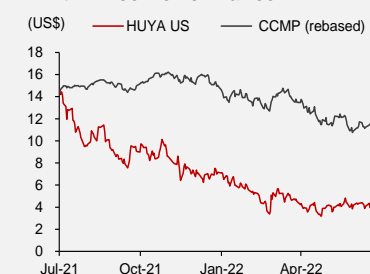
Morgan Stanley	17.25%
Teachers Insurance & Annuity	7.93%
Asso of America	
ARK Investment	6.23%
Source: Bloomberg	

Share Performance

	Absolute	Relative
1-mth	-20.1%	-24.7%
3-mth	-26.3%	-14.0%
6-mth	-53.3%	-39.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

1. Challenges to linger - 18 May 2022
2. Reinvesting for growth - 11 Nov 2021
3. Initiation: Game streaming leader with eSport tailwinds - 18 Jun 2021

Source: Company data, Bloomberg, CMBIGM estimates

Figure 1: 2Q22E financial preview

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22E	QoQ	YoY	Consensus	Diff %
Revenue	2,412	2,697	2,815	2,990	2,605	2,962	2,976	2,809	2,465	2,278	-8%	-23%	2,304	-1%
Gross profit	475	575	621	598	514	581	504	1	334	209	-37%	-64%	209	0%
Net profit	171	207	253	253	186	186	524	(313)	(3)	(107)	NA	NA	(103)	4%
Adj. net profit	265	331	361	306	266	250	180	(241.7)	47	(49)	NA	NA	(52)	-4%
Adj. EPS (RMB)	1.12	1.40	1.50	1.27	1.10	1.04	0.75	(1.00)	0.19	(0.20)	NA	NA	(0.28)	-28%
Margin (%)														
Gross margin	19.7%	21.3%	22.0%	20.0%	19.7%	19.6%	16.9%	0.0%	13.5%	9.2%			9.0%	
Operating margin	9.4%	11.3%	11.8%	9.0%	9.3%	8.4%	5.2%	-13.8%	-0.1%	-4.7%			9.1%	
Adj. net margin	11.0%	12.3%	12.8%	10.2%	10.2%	8.4%	6.0%	-8.6%	1.9%	-2.2%			-2.2%	
Growth (%)														
Revenue (YoY)	47.8%	34.2%	24.3%	21.2%	8.0%	9.8%	5.7%	-6.1%	-5.4%	-23.1%			-22.2%	
Revenue (QoQ)	-2.3%	11.8%	4.4%	6.2%	-12.9%	13.7%	0.4%	-5.6%	-12.3%	-7.6%			-6.5%	
Gross profit	71.2%	69.2%	49.6%	24.2%	8.2%	1.1%	-18.8%	-99.8%	-35.1%	-64.0%			-64.0%	
Adj. net profit	101.9%	94.2%	75.0%	26.5%	0.3%	-24.4%	-50.2%	-179.0%	-82.5%	-119.7%			-120.6%	

Source: Company data, Bloomberg, CMBIGM estimates

Figure 2: 2Q22E revenue breakdown

	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22E	QoQ	YoY
Revenue (RMB mn)	2,412	2,697	2,815	2,990	2,605	2,962	2,976	2,809	2,465	2,278	-7.6%	-23.1%
Live broadcasting	2,274	2,565	2,657	2,815	2,392	2,579	2,602	2,613	2,152	2,063	-4.1%	-20.0%
Others	137	132	158	175	213	383	374	196	313	215	-31.4%	-44.0%

Source: Company data, CMBIGM estimates

Figure 3: CMBIGM estimates vs consensus

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	9,480	9,527	9,772	9,329	10,022	10,109	1.6%	-4.9%	-3.3%
Gross profit	568	1,039	1,314	606	974	1,161	-6.4%	6.6%	13.2%
Operating profit	(795)	(424)	(142)	(793)	(388)	(12)	NA	NA	NA
Adj. net profit	(561)	(204)	53	(475)	(77)	137	NA	NA	NA
EPS (RMB)	(2.32)	(0.83)	0.21	(1.78)	0.11	1.00	NA	NA	NA
Gross margin	6.0%	10.9%	13.4%	6.5%	9.7%	11.5%	-0.5ppts	+1.2ppts	+2.0ppts
Operating margin	-8.4%	-4.4%	-1.5%	-8.5%	-3.9%	-0.1%	+0.1ppts	-0.6ppts	-1.3ppts
Net margin	-5.9%	-2.1%	0.5%	-5.1%	-0.8%	1.4%	-0.8ppts	-1.4ppts	-0.8ppts

Source: Company data, Bloomberg, CMBIGM estimates

Figure 4: Earnings revision

RMB mn, Dec-YE	CMBIGM			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	9,480	9,527	9,772	9,580	9,628	9,877	-1.0%	-1.1%	-1.1%
Gross profit	568	1,039	1,314	943	1,097	1,375	-39.8%	-5.3%	-4.5%
Operating profit	(795)	(424)	(142)	(564)	(368)	(84)	NA	NA	NA
Adj. net profit	(561)	(204)	53	(330)	(148)	103	NA	NA	NA
EPS (RMB)	(2.32)	(0.83)	0.21	(1.36)	(0.60)	0.41	NA	NA	NA
Gross margin	6.0%	10.9%	13.4%	9.8%	11.4%	13.9%	-3.9ppts	-0.5ppts	-0.5ppts
Operating margin	-8.4%	-4.4%	-1.5%	-5.9%	-3.8%	-0.8%	-2.5ppts	-0.6ppts	-0.6ppts
Net margin	-5.9%	-2.1%	0.5%	-3.4%	-1.5%	1.0%	-2.5ppts	-0.6ppts	-0.5ppts

Source: Company data, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenues	10,914	11,351	9,480	9,527	9,772
Live broadcasting	10,312	10,186	8,408	8,523	8,820
Others	603	1,165	1,072	1,003	952
COGS	(8,646)	(9,751)	(8,913)	(8,488)	(8,458)
Gross profit	2,268	1,600	568	1,039	1,314
R&D	(734)	(819)	(831)	(856)	(878)
S&M	(558)	(760)	(576)	(674)	(672)
G&A	(445)	(327)	(293)	(272)	(256)
Other income	194	275	95	96	100
Operating profit	725	(30)	(1,037)	(667)	(392)
Fair value change	(8)	44	-	-	-
Interest income	313	247	234	220	205
Other income and expenses	2	(1)	-	-	-
Pre-tax Income	1,033	260	(803)	(447)	(187)
Income Tax	(177)	(55)	-	-	(9)
Net profit	884	583	(803)	(447)	(196)
Adj. net profit	1,262	833	(561)	(204)	53

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net income	884	583	(803)	(447)	(196)
D&A	103	113	124	137	151
Change in WC	(162)	(160)	(360)	(46)	(10)
Others	415	(134)	242	243	249
Operating CF	1,240	403	(797)	(112)	194
Capex	(118)	(124)	(130)	(137)	(143)
Others	1,123	(2,377)	-	-	-
Investing CF	1,005	(2,501)	(130)	(137)	(143)
Issuance of preference shares	-	-	-	-	-
Issuance of common shares	-	-	-	-	-
Others	265	595	-	-	2,000
Financing CF	265	595	-	-	2,000
Net change in cash	2,510	(1,503)	(927)	(249)	2,050
Cash (beg of yr)	1,113	3,294	1,791	864	615
Fx effect	(166)	-	-	-	-
Cash (end of yr)	3,294	1,791	864	615	2,665

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	1,140	1,339	1,344	1,344	1,337
Property and equipment	95	80	69	54	35
Right-of-use assets	87	395	395	395	395
Intangible assets	63	84	100	115	127
Others	895	780	780	780	780
Current assets	11,271	11,916	10,975	10,726	12,779
Cash, and stricted cash	3,294	1,791	864	615	2,665
Accounts and notes receivables	71	88	74	74	76
Short-term deposits	5,975	8,352	8,352	8,352	8,352
Other current asset	1,931	1,686	1,686	1,686	1,686
Current liabilities	2,634	2,745	2,370	2,325	4,317
Accounts payables	10	13	11	11	11
Deferred revenue	399	460	460	460	460
Accruals	1,707	1,845	1,472	1,427	1,420
Others	517	427	427	427	2,427
Non-current liabilities	249	169	169	169	2,169
Lease liabilities	58	45	45	45	45
Deferred revenue	178	119	119	119	119
Deferred tax liabilities	13	5	5	5	5
Shareholders' equity	9,777	10,510	9,949	9,746	9,798

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Live broadcasting	94.5	89.7	88.7	89.5	90.3
Others	5.5	10.3	11.3	10.5	9.7
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	30.3	4.0	(16.5)	0.5	2.6
Gross profit	53.0	(29.4)	(64.5)	83.0	26.5
EBIT	177.4	(104.2)	3336.8	(35.7)	(41.2)
Adj. net profit	68.2	(34.0)	(167.3)	(63.7)	(126.0)
P&L ratios (%)					
Operating margin	6.6	(0.3)	(10.9)	(7.0)	(4.0)
Pre-tax margin	9.5	2.3	(8.5)	(4.7)	(1.9)
Adj. net margin	11.6	7.3	(5.9)	(2.1)	0.5
Effective tax rate	(17.1)	(21.3)	0.0	0.0	5.0
Returns (%)					
ROE	12.9	7.9	(5.6)	(2.1)	0.5
ROA	10.2	6.3	(4.6)	(1.7)	0.4
Per share					
EPS (RMB)	5.3	3.4	(2.3)	(0.8)	0.2
DPS (RMB)	-	-	-	-	-
BVPS (RMB)	41.0	43.5	40.5	39.0	38.6

Source: Company data, CMBIGM estimates

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