

# YY (YY US)

## Solid 3Q19 with stepping-up globalization

YY delivered solid 3Q19 results, with revenue /adj. EPADS +68% YoY/-47% YoY, 2%/15% higher than consensus. 4Q19 Rev guidance came in at +58%~62% YoY, midpoint 1.5% above consensus. User metrics trend well. We raised its adj. net profit by 24.7%/9.5% in FY20/21E, and lifted our TP to **US\$82** from **US\$74**. Valuation at 10x FY20E P/E is attractive.

- **3Q19 all-round beat.** As stated in our preview report, YY's 3Q19 results were solid on both financials and user metrics. 3Q19 revenue +68% YoY, 2%/2% higher than our estimates/ consensus. Adj. EPS -47% YoY, 15% above consensus. Mgmt. guided solid 4Q19 revenue at RMB7.32bn-RMB7.52bn (midpoint +60% YoY), 1.5% above consensus. Excluding Huya, YY Live & Bigo's 4Q19E, we estimate revenue to grow 59%-63% YoY.
- **User metrics on track; Overseas expansion to step up.** Despite regulation and competition, both YY Core and Bigo saw user sequential growth in 3Q19. Global MAU amounted to 470mn, +8% QoQ, and YY/HUYA Paying users +2%/8% QoQ. 3Q19 YY Core revenue grew 9% YoY, in line with our estimate. Bigo revenue reached RMB1.5bn, accounting for 22% of total revenue. Looking ahead, we keep confident on its overseas monetization potential, considering that: 1) paying ratio is still far lower than industry average, despite already-high ARPU; and 2) IMO and Likee will explore diversified monetization in 2020E. We forecast YY Core/Bigo revenue to grow 6%/45% YoY in FY20E.
- **Margin dilution priced in.** 3Q19 GPM was 31.5% (-3ppts YoY), 1ppt below our estimate; OPM was 6.7% (-11ppts YoY), largely in line with our estimate. We expect 4Q19E non-GAAP OPM to decline 1ppt QoQ on marketing efforts and less one-off other income. We believe near-term margin pressure from overseas expansion is well priced in, and expect stable OPM for YY core in FY20E, while Bigo's FY20E net loss will be similar to FY19E.
- **Maintain BUY.** We raised its adj. net profit by 24.7%/9.5% in FY20/21E, and lifted our TP to **US\$82** from **US\$74**. Our new TP is equivalent to **18x/12x** FY19/20E P/E, based on: 1) YY Live (7x FY19E P/E); 2) Huya (based on mkt cap) and 3) Bigo (2x FY19E P/S). The stock is now trading at **9.6x** FY20E P/E. Valuation is attractive in our view.

### Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	11,595	15,764	25,350	31,851	36,971
YoY growth (%)	41.3	36.0	60.8	25.6	16.1
Net income (RMB mn)	2,751	3,196	2,250	3,299	4,472
Adj. EPS (RMB)	45.23	49.94	32.30	47.37	64.22
YoY growth (%)	63.6	10.4	(35.3)	46.6	35.6
P/E (x)	10.1	9.1	14.1	9.6	7.1
P/B (x)	3.4	1.7	1.9	1.7	1.5
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	30.6	9.9	6.0	9.7	12.8
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIS estimates

### BUY (Maintain)

Target Price	US\$82.1
(Previous TP	US\$73.9)
Up/Downside	+26.3%
Current Price	US\$65.0

### China Internet Sector

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### Stock Data

Mkt Cap (US\$ mn)	5,258
Avg 3 mths t/o (US\$ mn)	55.9
52w High/Low (US\$)	89/51
Total Issued Shares (mn)	65.0
Source: Bloomberg	

### Shareholding Structure

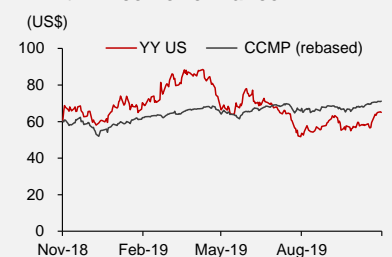
Lei Jun	15.5%
Morgan Stanley	5.7%
Capital Group	4.8%
Source: HKEx	

### Share Performance

	Absolute	Relative
1-mth	13.4%	7.7%
3-mth	25.6%	16.4%
6-mth	-9.6%	-15.7%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: PwC

### Related Reports

1. Solid 3Q19E on track – 22 Oct 2019
2. Margin pressure with global expansion – 15 Aug 2019
3. Guidance beat; Stepping up globalization – 31 May 2019
4. 4Q18 beat, with Bigo's acquisition settled – 6 Mar 2019

**Figure 1: 3Q19 financial review**

RMB mn	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	QoQ	YoY	Consensus	Diff %
Revenue	3,249	3,773	4,100	4,641	4,781	6,295	6,882	9.3%	67.8%	6,717	2%
Operating profit	596	714	611	719	474	72	160	122.2%	-73.8%	37	335%
Net profit	444	(137)	651	684	3,104	107	178	66.2%	-72.7%	84	113%
Adj. net profit	700	810	787	836	654	520	693	33.4%	-11.9%	468	48%
Adj. EPS (RMB)	10.96	12.69	12.07	12.86	9.32	5.14	6.42	24.9%	-46.8%	5.59	15%
<b>Margin (%)</b>											
Gross margin	38.0%	38.0%	38.0%	35.1%	33.9%	33.7%	31.5%			32.7%	
Operating margin	18.4%	18.9%	14.9%	15.5%	9.9%	1.1%	2.3%			0.5%	
Adj. net margin	21.5%	21.5%	19.2%	18.0%	13.7%	8.3%	10.1%			7.0%	
<b>Growth (%)</b>											
Revenue (YoY)	30.8%	44.6%	32.6%	28.0%	47.1%	66.8%	67.8%			63.8%	
Revenue (QoQ)	5.1%	16.1%	8.7%	13.2%	3.0%	31.7%	9.3%			6.7%	
Operating profit	-4.0%	19.1%	-7.6%	-12.5%	-20.6%	-89.9%	-73.8%			-94.0%	
Adj. net profit	16.9%	35.7%	23.1%	-11.9%	-6.6%	-35.8%	-11.9%			-40.5%	

Source: Company data, Bloomberg, CMBIS estimates

**Figure 2: Revenue breakdown**

RMB mn	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	QoQ	YoY
<b>Total revenue</b>	<b>3,249</b>	<b>3,773</b>	<b>4,100</b>	<b>4,641</b>	<b>4,781</b>	<b>6,295</b>	<b>6,882</b>	<b>9.3%</b>	<b>67.8%</b>
<b>by segment</b>									
Live broadcasting	2,032	3,560	3,895	4,391	4,485	5,923	6,474	9.3%	66.2%
Online games									
Membership	258	32	206	249	296	372	408		
Others									
<b>by platform</b>									
YY Live	2,407	2,735	2,824	3,136	2,753	3,054	3,080	0.9%	9.1%
Huya	844	1,038	1,277	1,505	1,631	2,010	2,265	12.7%	77.4%
Bigo					396	1,231	1,537		

Source: Company data, Bloomberg, CMBIS estimates

**Figure 3: SOTP valuation**

SOTP		Metrics		Multiple		Valuation
(Rmb mn)	Rev	Net profit		Shareholding		Valuation
YY Live	FY19 12,418	2,980		100%		20,862
Huya	Based on Mkt cap: US\$5.3bn			44%		16,047
BIGO	FY19 4,772	NA		100%		9,543
<b>Total</b>	<b>12,418</b>	<b>2,980</b>				<b>46,452</b>
Holding discount						20%
Equity Value (Rmb mn)						<b>37,161</b>
<b>Target Price (US\$)</b>						<b>82.1</b>

Source: Company data, CMBIS estimates

Figure 4: CMBI earnings revision

Rmb mn, Mar-YE	New			Old			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	25,350	31,851	36,971	24,088	30,975	36,075	5.2%	2.8%	2.5%
Gross Profit	8,428	10,590	12,551	8,250	10,546	12,355	2.2%	0.4%	1.6%
Operating Profit	1,283	2,470	4,025	1,396	1,569	3,498	-8.1%	57.4%	15.1%
Net profit	2,250	3,299	4,472	2,283	2,645	4,084	-1.5%	24.7%	9.5%
Adj. EPS (RMB)	32.30	47.37	64.22	32.78	37.98	58.64	-1.5%	24.7%	9.5%
Gross Margin	33.2%	33.2%	33.9%	34.2%	34.0%	34.2%	-1.0ppts	-0.8ppts	-0.3ppts
Operating Margin	5.1%	7.8%	10.9%	5.8%	5.1%	9.7%	-0.7ppts	+2.7ppts	+1.2ppts
Net Margin	8.9%	10.4%	12.1%	9.5%	8.5%	11.3%	-0.6ppts	+1.9ppts	+0.8ppts

Source: Company data, CMBIS estimates

Figure 5: CMBI estimates vs consensus

Rmb mn, Mar-YE	CMBI			Consensus			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	25,350	31,851	36,971	25,013	31,566	36,652	1.3%	0.9%	0.9%
Gross Profit	8,428	10,590	12,551	8,537	10,437	11,859	-1.3%	1.5%	5.8%
Operating Profit	1,283	2,470	4,025	975	1,729	3,067	31.6%	42.9%	31.2%
Net profit	2,250	3,299	4,472	2,217	3,156	4,512	1.5%	4.5%	-0.9%
Adj. EPS (RMB)	32.30	47.37	64.22	27.87	37.95	55.92	15.9%	24.8%	14.8%
Gross Margin	33.2%	33.2%	33.9%	34.1%	33.1%	32.4%	-0.9ppt	+0.2ppts	+1.6ppts
Operating Margin	5.1%	7.8%	10.9%	3.9%	5.5%	8.4%	+1.2ppts	+2.3ppts	+2.5ppts
Net Margin	8.9%	10.4%	12.1%	8.9%	10.0%	12.3%	+0.0ppts	+0.4ppts	-0.2ppts

Source: Company data, Bloomberg

Figure 6: Peers valuation

Company	Ticker	Mkt cap (USD mn)	Currency	Price	PE			PS			EV/EBITDA			FY19-21E	
					FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	EPS	CAGR
Livestreaming															
Momo	MOMO US	7,941	USD	38.3	14.7	12.1	10.6	3.3	2.8	2.5	12.3	8.6	7.2	17%	
YY	YY US	5,258	USD	65.0	16.4	12.0	8.2	1.5	1.2	1.0	12.0	8.2	5.5	42%	
Inke	3700 HK	311	HKD	1.2	5.1	2.7	2.7	NA	NA	NA	NA	NA	NA	38%	
HUYA	HUYA US	5,289	USD	24.3	57.9	32.7	21.6	4.6	3.4	2.8	69.3	27.6	17.1	64%	
Average					23.5	14.9	10.8	3.1	2.4	2.1	31.2	14.8	9.9	40%	
Entertainment															
Tencent Music	TME US	21,600	USD	13.2	33.2	26.9	19.9	6.0	4.6	3.7	29.2	22.1	16.2	29%	
iQiyi	IQ US	13,894	USD	19.1	NA	NA	NA	3.4	2.9	2.4	22.1	14.3	9.0	-45%	
Match	MTCH US	19,153	USD	68.4	34.5	32.8	26.3	9.3	7.9	6.8	26.4	22.3	18.1	14%	
Bilibili	BILI US	5,440	USD	16.7	NA	NA	87.0	5.8	4.0	3.0	NA	199.3	26.7	NA	
Average					33.8	29.9	44.4	6.1	4.8	4.0	25.9	64.5	17.5	-1%	
Total Average					27.0	19.9	25.2	4.8	3.8	3.2	28.5	43.2	14.3	25%	

Source: Bloomberg

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Revenue</b>	<b>11,595</b>	<b>15,764</b>	<b>25,350</b>	<b>31,851</b>	<b>36,971</b>
Live broadcasting	10,671	14,878	19,648	23,965	27,335
Others	924	886	930	968	987
<b>COGS</b>	<b>(7,026)</b>	<b>(10,017)</b>	<b>(16,922)</b>	<b>(21,261)</b>	<b>(24,420)</b>
<b>Gross profit</b>	<b>4,568</b>	<b>5,746</b>	<b>8,428</b>	<b>10,590</b>	<b>12,551</b>
S&M	(691)	(1,149)	(3,352)	(3,511)	(3,705)
Admin.Exp.	(545)	(883)	(1,445)	(1,752)	(1,849)
R&D	(782)	(1,192)	(2,517)	(3,003)	(3,116)
Others	149	118	169	145	144
<b>Operating profit</b>	<b>2,699</b>	<b>2,640</b>	<b>1,283</b>	<b>2,470</b>	<b>4,025</b>
Financial income	180	486	440	509	472
Other income	12	(590)	-	-	-
<b>Pre-tax Income</b>	<b>2,891</b>	<b>2,535</b>	<b>1,723</b>	<b>2,978</b>	<b>4,498</b>
Income Tax	(416)	(478)	(327)	(566)	(855)
MI	18	(465)	(140)	(362)	(619)
<b>Net profit</b>	<b>2,494</b>	<b>1,642</b>	<b>1,256</b>	<b>2,051</b>	<b>3,024</b>
<b>Adj. net profit</b>	<b>2,751</b>	<b>3,196</b>	<b>2,250</b>	<b>3,299</b>	<b>4,472</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Net income</b>	<b>2,494</b>	<b>1,642</b>	<b>1,256</b>	<b>2,051</b>	<b>3,024</b>
D&A	214	241	273	300	345
Change in WC	705	(108)	-	-	-
Income tax paid	(416)	(478)	(327)	(566)	(855)
Others	673	1,126	1,321	1,814	2,303
<b>Operating CF</b>	<b>3,670</b>	<b>2,423</b>	<b>2,523</b>	<b>3,598</b>	<b>4,817</b>
Capex	(328)	(447)	(718)	(902)	(1,047)
Associates	-	-	-	-	-
Others	(2,304)	(4,293)	-	-	-
<b>Investing CF</b>	<b>(2,632)</b>	<b>(4,739)</b>	<b>(718)</b>	<b>(902)</b>	<b>(1,047)</b>
Equity raised	-	5,846	-	-	-
Change of Debts	-	-	-	-	-
Others	-	-	-	-	-
<b>Financing CF</b>	<b>-</b>	<b>5,846</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net change in cash</b>	<b>1,038</b>	<b>3,530</b>	<b>1,805</b>	<b>2,696</b>	<b>3,770</b>
Cash (beg of yr)	1,580	2,618	6,147	7,952	10,648
FX	-	-	-	-	-
<b>Cash (end of yr)</b>	<b>2,618</b>	<b>6,147</b>	<b>7,952</b>	<b>10,648</b>	<b>14,418</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Non-current assets</b>	<b>4,329</b>	<b>8,278</b>	<b>6,269</b>	<b>6,269</b>	<b>6,269</b>
Fixed asset	1,017	1,296	1,296	1,296	1,296
Long-term investments	1,153	4,592	4,592	4,592	4,592
Intangible assets	37	75	75	75	75
Others	2,122	2,316	306	306	306
<b>Current assets</b>	<b>10,129</b>	<b>17,483</b>	<b>17,845</b>	<b>19,934</b>	<b>22,987</b>
Cash	2,617	6,004	7,952	10,648	14,418
Deposit over 3 months	6,000	7,327	8,482	7,874	7,158
Account receivable	376	1,217	1,217	1,217	1,217
Others	1,136	2,934	194	194	194
<b>Current liabilities</b>	<b>3,146</b>	<b>3,846</b>	<b>3,846</b>	<b>3,846</b>	<b>3,846</b>
Borrowings	588	-	-	-	-
Account payable	76	115	115	115	115
Tax payable	146	236	236	236	236
Accrued expenses	1,466	2,414	2,414	2,414	2,414
Other	869	1,082	1,082	1,082	1,082
<b>Non-current liabilities</b>	<b>75</b>	<b>119</b>	<b>175</b>	<b>213</b>	<b>243</b>
Convertible debt	7	-	-	-	-
Other long-term liabilities	69	119	175	213	243
MI	6	6	6	6	6
<b>Total net assets</b>	<b>11,238</b>	<b>21,796</b>	<b>20,093</b>	<b>22,144</b>	<b>25,167</b>
<b>Shareholders' equity</b>	<b>11,232</b>	<b>21,790</b>	<b>20,087</b>	<b>22,138</b>	<b>25,161</b>

### Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Sales mix (%)</b>					
Live broadcasting	92.0	94.4	96.1	96.9	97.3
Others	8.0	5.6	3.9	3.1	2.7
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Growth rate (%)</b>					
Revenue	41.3	36.0	60.8	25.6	16.1
Gross profit	47.3	25.8	46.7	25.6	18.5
EBIT	50.4	(2.2)	(51.4)	92.5	63.0
Net profit	63.6	(34.1)	(23.5)	63.3	47.5
<b>P&amp;L ratios (%)</b>					
Operating margin	23.3	16.7	5.1	7.8	10.9
Pre-tax margin	24.9	16.1	6.8	9.4	12.2
Adj. net margin	23.7	20.3	8.9	10.4	12.1
Effective tax rate	(14.4)	(18.8)	(19.0)	(19.0)	(19.0)
<b>Returns (%)</b>					
ROE	30.6	9.9	6.0	9.7	12.8
ROA	20.6	8.2	5.0	8.2	10.9
<b>Per share</b>					
EPS (RMB)	45.2	49.9	32.3	47.4	64.2
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	184.8	358.4	330.4	364.2	413.9

Source: Company data, CMBIS estimates

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