

JOYY Inc. (YY US)

Margin surprise, with Shipline as next driver

JOYY's 3Q22 results beat on margin surprise, with guidance largely in line. We expect rev -9% YoY in 4Q22E, in which Shipline consolidation to partially offset Bigo's headwinds. With rising paying user and Middle East stabilization, Bigo would resume growth in 2H23E (+2% YoY in FY23E), in our view. We expect Shipline to be a long-term driver, with rev CAGR >30% in FY22-24E (9% of total rev in FY23E), backed by its region expansion, rising cross-border biz and resilient GMV in HK mkt. 4Q22E margin might be diluted by annual gala and Shipline loss, but long-term trend remains intact. To factor in Shipline's consolidation (with net loss) and soft macro, we cut FY22-24E earnings by 6%-26%, but keep our SOTP-based TP at US\$50 unchanged (as Bigo's earnings not impacted).

- 3Q22 beat on margin with inline guidance.** 3Q22 rev -10% YoY, 2.0% above consensus. 4Q22E rev guided at US\$594mn to US\$619mn, midpoint largely in line with consensus (Bigo Live missed if excluding Shipline's consolidation). Non-GAAP NP came out at US\$71mn, 210% above consensus, representing margin at 12% (vs.+4ppts QoQ), attributable to higher GPM and continuous cost savings on opex.
- Expecting Bigo to resume growth in 2H23E.** We expect rev -9% YoY in 4Q22E, in which full-quarter shipline rev contribution to partially offset Bigo's rev decline. Bigo Live headwinds were yet over (e.g. traffic normalization, soft macro, inflation, TikTok's competition), but some regions resumed positive rev growth YoY in 9M22, including Australia & New Zealand, Philippines, and the UK. With rising paying user and Middle East stabilization, we expect Bigo to show low single digit growth in FY23E (positive growth in 2H23E). 4Q22E adj. NPM might be diluted by annual gala and Shipline loss (forecasting at 1%), but long-term margin improvement remains intact. Looking ahead, we expect adj. NPM of Group at 6.1%/6.9% in FY23/24E, with continuous cost discipline, ROI-driven S&M and narrowing loss of Shipline.
- Shipline as next driver, despite short-term margin dilution.** We forecast Shipline to contribute rev of US\$40mn in 4Q22E, with net loss estimated at US\$45mn. As a fast-growing ecommerce SaaS provider, we see high visibility for Shipline to deliver >30% rev CAGR in FY22-24E (contributing 9% of Group rev in FY23E), backed by its region expansion, rising cross-border biz and resilient GMV in HK mkt.
- Maintain BUY.** We cut FY22-24E earnings by 6%-26%, but keep SOTP-based TP at US\$50 unchanged (as Bigo's earnings not impacted).

Earnings Summary

(YE 31 Dec)	FY20A	FY21	FY22E	FY23E	FY24E
Revenue (US\$ mn)	1,918	2,619	2,409	2,531	2,618
YoY growth (%)	(48.2)	36.5	(8.0)	5.1	3.5
Net income (US\$ mn)	(162)	96	134	154	177
Adj. EPS (US\$)	(2.0)	1.2	1.9	2.1	2.4
YoY growth (%)	(141.9)	(159.3)	39.4	15.4	14.5
Consensus EPS	NA	NA	1.85	2.35	2.69
P/E (x)	19.7	NA	15.6	13.5	11.9
P/S (x)	1.3	1.5	0.9	0.8	0.8
Yield (%)	3.9	7.5	7.6	8.3	9.1

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$50.0
(Previous TP)	US\$50.0)
Up/Downside	+71.8%
Current Price	US\$29.1

China Internet Sector

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Stock Data

Mkt Cap (US\$ mn)	1,922
Avg 3 mths t/o (US\$ mn)	15.09
52w High/Low (US\$)	55.14/21.38
Total Issued Shares (mn)	55

Source: Bloomberg

Shareholding Structure

T Rowe Price Group	9.58%
Capital Group	4.67%
BlackRock	4.65%

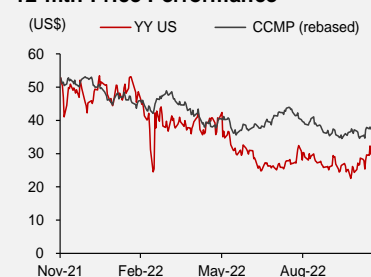
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	5.8%	1.7%
3-mth	-16.4%	-9.6%
6-mth	-32.4%	-27.0%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Margin surprise, with guidance largely inline

3Q22 rev -10% YoY, 2.0% above consensus. 4Q22E rev guided at US\$594mn to US\$619mn, midpoint largely in line with consensus (Bigo Live missed if excluding Shopleveline's consolidation). Non-GAAP NP came out at US\$71mn, 210% above consensus, representing non-GAAP NPM at 12% (vs.+4ppts QoQ), attributable to higher GPM and continuous cost savings on opex. Bigo live: live streaming rev/paying user -16%/-0.5% YoY, due to the uncertain global economy and forex depreciation against the US dollar. Paying users in Europe, North America, the Middle East, and Southeast Asia, resumed sequential growth in 3Q22.

By 3Q22, JOYY had net cash position at ~US\$4.3bn, while the market cap was US\$2.0bn (by the last trading day). By 3Q22, JOYY had repurchased US\$342mn of its shares cumulatively, accounting for 28.5% of the repurchase program (total US\$1.2bn). The strong cash position and share repurchase program will likely support the share price.

Figure 1: 3Q22 financial review

US\$ mn	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	QoQ	YoY	Consensus	Diff %
Revenue	474	534	568	643	662	651	664	624	596	587	-1.6%	-9.8%	575	2%
Gross profit	127	156	167	200	203	211	224	201	218	220	0.8%	4.5%	202	9%
Operating profit	(120)	(89)	(84)	(73)	(101)	7	61	6	39	20	NA	188.9%	33	-39%
Adj. net profit	(51)	(27)	(22)	(26)	(4)	33	98	17	48	71	NA	112.2%	23	210%
Adj. EPS (US\$)	0.79	(0.33)	(0.28)	(0.30)	(0.04)	0.36	1.19	0.24	0.67	0.83	NA	127.9%	0.36	132%
Margin (%)														
Gross margin	26.8%	29.1%	29.3%	31.1%	30.7%	32.4%	33.7%	32.2%	36.6%	37.5%			35.2%	
Operating margin	-25.3%	-16.7%	-14.7%	-11.4%	-15.3%	1.1%	9.1%	1.0%	6.5%	3.4%			5.7%	
Adj. net margin	-10.7%	-5.0%	-3.9%	-4.0%	-0.5%	5.1%	14.7%	2.8%	8.1%	12.0%			4.0%	
Growth (%)														
Revenue (YoY)	-48.8%	NA	87.6%	88.1%	39.7%	21.7%	16.8%	-3.0%	-9.9%	-9.8%			-11.6%	
Revenue (QoQ)	NA	NA	NA	13.1%	2.9%	-1.7%	2.0%	-6.0%	-4.4%	-1.6%			-3.6%	
Operating profit	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA			NA	
Adj. net profit	-166.2%	NA	NA	NA	NA	NA	NA	NA	NA	NA			NA	

Source: Company data, Bloomberg, CMBIGM estimates

Figure 2: Revenue breakdown

US\$ mn	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	QoQ	YoY
Total revenue	474	534	568	643	662	651	664	624	596	587	-1.6%	-9.8%
by segment												
Live broadcasting	451	511	540	614	630	612	621	590	565	543	-4.0%	-11.3%
Others	23	23	28	29	32	38	43	34	31	44	42.5%	14.6%
by platform												
Bigo	432	490	509	581	598	569	576	535	503	483	-3.8%	-15.0%
All other	42	44	59	62	64	82	88	89	93	103	10.6%	26.4%

Source: Company data

Bigo: expecting 2H23E to see positive growth

We expect rev -9% YoY in 4Q22E, in which full-quarter shopleveline rev contribution to partially offset Bigo live rev decline. Bigo Live headwinds were yet over (e.g. traffic normalization, soft macro, inflation, TikTok's competition), but some areas might see rev sequential growth from 4Q22E (e.g. US, EU). Several regions resumed positive rev growth YoY in 9M22, including Australia, New Zealand, Philippines and the UK. With rising paying user and Middle East stabilization, we expect Bigo to show low single digit growth in FY23E (positive growth in 2H23E). 4Q22E adj. NPM might be diluted by annual gala and Shopleveline loss (forecasting at 1%), but long-term margin improvement remains intact. Looking ahead, we expect adj. NPM of Group at 6.1%/6.9% in FY23/24E, with continuous cost discipline, ROI-driven S&M and narrowing loss of Shopleveline.

Shopline as next driver, with narrowing loss ahead

We forecast Shopline to contribute rev of US\$40mn in 4Q22E (on strong season, vs. US\$10mn per month in 9M22), with net loss estimated at US\$45mn. As a fast-growing ecommerce SaaS provider, we see high visibility for Shopline to deliver >30% rev CAGR in FY22-24E (contributing 9% of Group rev in FY23E), backed by its region expansion, rising cross-border biz and resilient GMV in HK mkt. Meanwhile, its rev mix change and operating leverage would further support narrowing loss ahead.

To factor in Shopline's consolidation (with net loss) and soft macro, we cut FY22-24E earnings by 6%-26%, but keep our SOTP-based TP at US\$50 unchanged (as Bigo's earnings not impacted).

Figure 3: CMBIGM estimates vs consensus

US\$ mn, Dec-YE	CMBIS			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	2,409	2,531	2,618	2,432	2,549	2,726	-0.9%	-0.7%	-4.0%
Gross Profit	850	927	966	838	885	956	1.4%	4.9%	1.0%
Operating Profit	81	158	181	163	157	193	-50.4%	0.8%	-6.1%
Net profit	134	154	177	139	169	192	-4.0%	-8.8%	-7.8%
Adj. EPS (RMB)	1.86	2.15	2.45	1.85	2.35	2.69	0.5%	-8.5%	-8.9%
Gross Margin	35.3%	36.6%	36.9%	34.5%	34.7%	35.1%	+0.8ppts	+2.0ppts	+1.8ppts
Operating Margin	3.4%	6.3%	6.9%	6.7%	6.2%	7.1%	-3.3ppts	+0.1ppts	-0.2ppts
Net Margin	5.6%	6.1%	6.8%	5.7%	6.6%	7.0%	-0.2ppts	-0.5ppts	-0.3ppts

Source: CMBIGM estimates, Bloomberg

Figure 4: Earnings revision

US\$ mn, Dec-YE	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	2,409	2,531	2,618	2,513	2,621	2,802	-4.1%	-3.4%	-6.6%
Gross Profit	850	927	966	868	943	991	-2.1%	-1.6%	-2.6%
Operating Profit	81	158	181	63	136	142	28.1%	16.4%	27.5%
Net profit	134	154	177	143	204	239	-6.4%	-24.3%	-26.0%
Adj. EPS (RMB)	1.86	2.15	2.45	2.01	2.86	3.34	-7.5%	-25.0%	-26.8%
Gross Margin	35.3%	36.6%	36.9%	34.5%	36.0%	35.4%	+0.7ppts	+0.7ppts	+1.5ppts
Operating Margin	3.4%	6.3%	6.9%	2.5%	5.2%	5.1%	+0.8ppts	+1.1ppts	+1.8ppts
Net Margin	5.6%	6.1%	6.8%	5.7%	7.8%	8.5%	-0.1ppts	-1.7ppts	-1.8ppts

Source: CMBIGM estimates

Figure 5: Valuation comps

Company	Ticker	Mkt cap (USD mn)	Currency	Price	CMBI Rating	CMBI TP	PE			PS			FY22-24 EPS
							FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	CAGR
JOYY	YY US	2,069	USD	29	BUY	50	15.6	13.5	11.9	0.9	0.8	0.8	20%
Live Streaming													
Hello Inc	MOMO US	971	USD	5	HOLD	14	4.1	3.8	3.6	0.6	0.5	0.5	8%
JOYY	YY US	1,952	USD	28	BUY	50	14.0	11.6	10.2	0.8	0.8	0.7	20%
Inke	3700 HK	211	HKD	1	NA	NA	3.1	2.9	2.4	0.2	0.2	0.2	15%
Douyu	DOYU US	365	USD	1	NA	NA	NA	34.3	18.6	0.4	0.4	0.4	NA
Huya	HUYA US	493	USD	2	BUY	4	NA	NA	21.2	0.4	0.4	0.4	NA
Average							7.1	6.1	5.4	0.5	0.4	0.4	14%
Pan-entertainment													
TME	TME US	10,674	USD	6	BUY	7	16.4	15.2	14.1	2.7	2.6	2.4	11%
iQIYI	IQ US	2,291	USD	3	BUY	13	NA	20.2	11.0	0.6	0.5	0.5	226%
China Literature	772 HK	3,512	HKD	27	NA	NA	18.9	15.6	13.6	3.0	2.7	2.5	18%
Bilibili	BILI US	5,035	USD	13	BUY	20	NA	NA	NA	1.6	1.3	1.1	NA
Kuaishou	1024 HK	30,172	HKD	55	BUY	80	NA	NA	24.4	2.3	2.0	1.7	NA
Zhihu	ZH US	582	USD	1	BUY	5	NA	NA	NA	1.2	0.9	0.7	NA
Average							17.6	17.0	15.8	1.9	1.7	1.5	15%
Average							11.3	11.6	11.3	1.2	1.1	1.0	15%

Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (US\$ mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	1,918	2,619	2,409	2,531	2,618
Live broadcasting	1,816	2,477	2,223	2,245	2,273
Others	102	142	186	285	345
COGS	(1,378)	(1,781)	(1,559)	(1,603)	(1,653)
Gross profit	540	838	850	927	966
S&M	(303)	(280)	(322)	(359)	(360)
Admin. Exp.	(505)	(468)	(395)	(363)	(359)
R&D	(147)	(222)	(154)	(145)	(146)
Others	-	-	-	-	(0)
Operating profit	(407)	(107)	(8)	74	101
Financial income	89	91	96	96	96
Other income	8	25	13	13	(1)
Pre-tax Income	14	(78)	569	152	179
Income Tax	(28)	(26)	(28)	(29)	(29)
MI	(7)	14	15	-	-
Share of equity inv	(8)	(26)	(130)	-	-
Net profit	1,363	(90)	426	124	150
Adj. net profit	(162)	96	134	154	177

Cash flow summary

YE 31 Dec (US\$ mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net income	(19)	(130)	411	124	150
D&A	82	88	105	121	135
Change in WC	(113)	(90)	27	(16)	(11)
Others	575	253	226	155	151
Operating CF	524	122	770	384	424
Capex	(160)	(158)	(163)	(168)	(173)
Associates	-	-	-	-	-
Others	990	(116)	(116)	(116)	(116)
Investing CF	830	(274)	(279)	(283)	(288)
Equity raised	-	-	-	-	-
Change of Debts	1,076	-	-	-	-
Others	(1,356)	(724)	-	-	-
Financing CF	(279)	(724)	-	-	-
Net change in cash	986	(874)	491	100	136
Cash (beg of yr)	657	1,756	882	1,373	1,473
FX	-	-	-	-	-
Cash (end of yr)	1,850	882	1,373	1,473	1,609

Balance sheet

YE 31 Dec (US\$ mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	4,194	4,236	4,164	4,211	4,248
Fixed asset	402	470	528	575	613
Long-term investments	1,239	1,213	1,083	1,083	1,083
Intangible assets	344	344	344	344	344
Others	2,208	2,208	2,208	2,208	2,208
Current assets	3,901	3,117	3,581	3,697	3,844
Cash	1,756	882	1,373	1,473	1,609
Deposit over 3 months	1,357	1,357	1,357	1,357	1,357
Account receivable	143	195	180	189	195
Others	645	683	672	678	683
Current liabilities	944	807	747	749	751
Borrowings	-	-	-	-	-
Account payable	21	21	19	19	19
Tax payable	61	61	61	61	61
Accrued expenses	484	492	442	440	439
Other	378	232	225	229	232
Non-current liabilities	837	668	668	668	668

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Live broadcasting	94.7	94.6	92.3	88.7	86.8
Others	5.3	5.4	7.7	11.3	13.2
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	(48.2)	36.5	(8.0)	5.1	3.5
Gross profit	(55.7)	55.2	1.4	9.2	4.1
EBIT	NA	NA	NA	NA	36.2
Net profit	NA	NA	39.4	15.4	14.5
P&L ratios (%)					
Operating margin	(21.2)	(4.1)	(0.3)	2.9	3.8
Pre-tax margin	0.7	(3.0)	23.6	6.0	6.8
Adj. net margin	(8.4)	3.7	5.6	6.1	6.8
Effective tax rate	NA	33.2	(4.9)	(18.8)	(16.2)
Returns (%)					
ROE	na	1.5	2.0	2.2	2.5
ROA	na	1.2	1.8	2.0	2.2

Convertible debt	779	609	609	609	609						
Other long-term liabilities	58	59	59	59	59	Per share					
						EPS (RMB)	17.0	(1.1)	5.9	1.7	2.1
MI	5	(88)	(88)	(88)	(88)	DPS (RMB)	0.0	0.0	0.0	0.0	0.0
Total net assets	6,314	5,878	6,330	6,490	6,673	BVPS (RMB)	78.8	81.2	94.7	96.9	98.9
Shareholders' equity	6,308	6,346	6,813	6,973	7,156						

Source: Company data, CMBIGM estimates

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