

Momo (MOMO US)

Mixed 4Q19; Waiting for 2H20E recovery

Momo delivered mixed 4Q19 results, with topline/bottom line growing 22%/41% YoY, 2%/13% above consensus, while 1Q20E guidance was soft (18% below consensus). Given multiple headwinds (e.g. COVID-19 impact, regulation limitation), we expect Momo to suffer financials YoY decline in 1H20E, and see meaningful recovery until 2H20E. We cut its earnings by 27%/15% in FY20/21E, and trimmed our TP to US\$35. Maintain BUY with low valuation.

- 4Q19 beat, while guidance soft.** 4Q19 revenue grew 22% YoY, 2%/2% above our estimates/ consensus. Non-GAAP net profit grew 41% YoY, 1%/6% above our estimates/consensus. 1Q20E guidance was soft on COVID-19 impact, lucky draw features and weak seasonality. Mgmt. guided 1Q20E revenue at RMB3.45bn~RMB3.55bn (midpoint -6% YoY), 18% below consensus. Momo declared a special dividend of US\$0.76 per ADS.
- Waiting for 2H20E recovery under COVID-19 impact.** 4Q19 livestreaming revenue +14% YoY, while VAS +64% YoY. Momo would bear near-term pressure from COVID-19 in 1Q20E, for: 1) weak traffic with work resumption delay and outdoor activities limitation; and 2) suppressed gifting willingness by soft consumption power under macro uncertainty, especially for top spenders. Mgmt expect revenue QoQ growth from 2Q20, and YoY growth in 2H20E. We forecast its livestreaming/VAS revenue to trend -17%/+20% YoY in 1Q20E. Looking ahead, Momo will enrich innovative features to enhance user retention, and penetrate into low-tier cities.
- Tantan to face near-term user growth pressure.** Tantan's revenue +66% YoY in 4Q19, with paying users flat at 4.5mn. We expect Tantan's MAU & paying users soft trend to continue in 1Q20E, for iOS new subscription policy and weak engagement with outdoors limitation under COVID-19. We expect Tantan's revenue to grow 20% YoY in 1Q20E, and to accelerate in 2H20E, supported by user recovery and enhanced features. Tantan would see narrowing net loss quarter by quarter in FY20E. We forecast the Group's non-GAAP OPM to decline 5ppts YoY for higher agencies sharing, soft topline and content innovations, while 1Q20E margin at lowest level.
- Maintain BUY.** We cut its earnings by 27%/15% in FY20/21E, and trimmed our TP from US\$45 to US\$35 (15x/11x FY20/21E P/E). Despite multiple challenges from COVID-19 and traffic pressure in 1H20E, we keep positive on Momo's long-term content innovations and VAS expansion.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	13,995	17,142	17,169	20,467	22,271
YoY growth (%)	60.5	22.5	0.2	19.2	8.8
Net income (RMB mn)	3,611	4,304	3,756	5,212	6,120
EPS (RMB)	16.9	18.9	16.3	22.3	23.9
YoY growth (%)	35.9	12.3	-14.2	36.7	15.9
Consensus EPS (RMB)	NA	NA	20.8	24.4	24.8
P/E (x)	9.0	8.0	9.4	6.9	5.9
P/B (x)	3.1	2.6	2.5	2.4	2.2
Yield (%)	2.0	0.0	0.0	0.0	1.0
ROE (%)	33.5	29.8	26.6	36.2	41.0
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	US\$35.0
(Previous TP)	US\$45.0
Up/Downside	+59.0%
Current Price	US\$22.0

China Internet Sector

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Stock Data

Mkt Cap (US\$ mn)	7,460
Avg 3 mths t/o (US\$ mn)	88.5
52w High/Low (US\$)	40.9/22.5
Total Issued Shares (mn)	167.2

Source: Bloomberg

Shareholding Structure

FMR	10.7%
BlackRock	8.4%
Renaissance Tech	8.0%

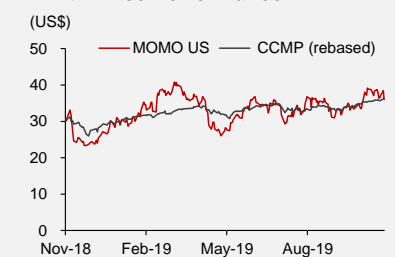
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	5.9%	0.9%
3-mth	9.9%	-0.2%
6-mth	38.3%	22.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Related Reports

- Solid 3Q19; Eyes on Tantan's initiatives – 28 Nov 2019
- 3Q19E Preview: user recovery to come – 21 Oct 2019
- Solid 2Q19; Expecting rebound in 2H19E – 28 Aug 2019
- Moving to 2H19E recovery – 10 Jul 2019
- Solid 1Q19; Limited impact from regulations – 29 May 2019

Figure 1: Earnings revision

RMB mn, Dec-YE	New		Old		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	17,169	20,467	19,543	22,571	-12.1%	-9.3%
Gross Profit	8,270	10,199	9,676	11,316	-14.5%	-9.9%
Operating Profit	3,586	5,162	5,269	6,120	-31.9%	-15.7%
Net profit	3,756	5,212	5,177	6,138	-27.4%	-15.1%
EPS (RMB)	16.31	22.29	22.10	25.81	-26.2%	-13.7%
Gross Margin	48.2%	49.8%	49.5%	50.1%	-1.3ppts	-0.3ppts
Operating Margin	20.9%	25.2%	27.0%	27.1%	-6.1ppts	-1.9ppts
Net Margin	21.9%	25.5%	26.5%	27.2%	-4.6ppts	-1.7ppts

Source: Company data, CMBIS estimates

Figure 2: CMBI estimates vs consensus

RMB mn, Dec-YE	CMBI			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	17,169	20,467	22,271	19,726	21,705	22,220	-13.0%	-5.7%	0.2%
Gross Profit	8,270	10,199	11,158	9,672	10,736	11,259	-14.5%	-5.0%	-0.9%
Operating Profit	3,586	5,162	6,014	4,721	5,719	5,635	-24.0%	-9.7%	6.7%
Net profit	3,756	5,212	6,120	5,149	5,732	5,805	-27.1%	-9.1%	5.4%
EPS (RMB)	16.31	22.29	23.91	20.82	24.37	24.84	-21.7%	-8.6%	-3.7%
Gross Margin	48.2%	49.8%	50.1%	49.0%	49.5%	50.7%	-0.9ppts	+0.4ppts	-0.6ppts
Operating Margin	20.9%	25.2%	27.0%	23.9%	26.4%	25.4%	-3.0ppts	-1.1ppts	+1.6ppts
Net Margin	21.9%	25.5%	27.5%	26.1%	26.4%	26.1%	-4.2ppts	-0.9ppts	+1.4ppts

Source: Company data, Bloomberg

Figure 3: Momo's 4Q19 Review

RMB mn	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	QoQ	YoY	Consensus	Diff %	CMBI	Diff %
Revenue	2,764	3,152	3,648	3,844	3,723	4,153	4,452	4,688	5.3%	22.0%	4,579	2%	4,815	-3%
Operating Profit	937	897	644	794	422	966	1,033	1,249	21.0%	57.4%	1,157	8%	1,323	-6%
Net profit	825	751	580	708	289	789	945	1,056	11.8%	49.2%	982	8%	1,183	-11%
Adj. net profit	904	885	750	887	910	928	1,088	1,253	15.1%	41.1%	1,185	6%	1,355	-8%
EPS	4.36	4.18	3.50	4.05	4.06	4.12	4.90	5.61	14.4%	38.5%	4.98	13%	5.97	-6%
Margin (%)														
Gross Margin	51.9%	45.6%	44.5%	45.6%	50.3%	50.9%	51.1%	49.8%			49.0%		50.4%	
Operating Margin	33.9%	28.4%	17.7%	20.5%	11.3%	23.3%	23.2%	26.7%			25.3%		27.5%	
Adj. net margin	32.7%	28.1%	20.5%	23.5%	24.5%	22.4%	24.4%	26.7%			25.9%		28.1%	
Growth (%)														
Revenue (YoY)	51.3%	48.5%	55.9%	50.5%	34.7%	31.7%	22.0%	22.0%			19.1%		25.3%	
Revenue (QoQ)	8.2%	14.0%	15.7%	5.4%	-3.1%	11.5%	7.2%	5.3%			12.0%		8.2%	
Operating Profit	49.4%	78.8%	9.6%	12.1%	-55.0%	7.7%	60.4%	57.4%			38.7%		66.6%	
Adj. net profit	44.6%	66.6%	21.1%	22.0%	0.7%	4.9%	45.2%	41.1%			33.6%		52.7%	

Source: Company data, Bloomberg, CMBIS estimates

Figure 4: 4Q19 Revenue breakdown

RMB mn	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	QoQ	YoY
Total revenue	2,764	3,152	3,648	3,865	3,723	4,153	4,452	4,688	5%	21%
Live broadcasting	2,360	2,621	2,769	2,975	2,689	3,100	3,275	3,383	3%	14%
VAS	235	352	573	726	904	948	1,065	1,189	12%	64%
Mobile marketing	42	142	117	123	81	76	82	93	14%	-24%
Mobile games	119	35	28	26	39	23	16	14	-9%	-44%
Other services	8	2	160	15	10	5	14	8	-44%	-46%

Source: Company data

Figure 5: Quarterly financials

	2019A				2020E				2021E			
(RMB mn, YE Dec 31)	1Q19	2Q19	3Q19	4Q19	1Q20E	2Q20E	3Q20E	4Q20E	1Q21E	2Q21E	3Q21E	4Q21E
Net Revenue	3,722.9	4,152.6	4,451.6	4,814.6	3,478.1	3,941.4	4,672.4	5,077.2	4,535.6	5,130.4	5,304.0	5,497.2
Live broadcasting service	2,689.4	3,099.9	3,275.4	3,474.9	2,288.5	2,631.1	3,169.1	3,491.1	3,006.4	3,456.4	3,586.8	3,695.1
VAS	903.9	948.4	1,064.6	1,221.3	1,129.8	1,234.0	1,415.1	1,493.5	1,455.7	1,584.0	1,619.5	1,701.3
Mobile game	80.7	76.2	81.9	95.5	34.4	47.5	54.5	54.2	40.5	52.4	56.7	55.8
Mobile marketing	39.0	23.2	15.8	14.8	17.3	20.4	24.7	29.1	23.1	27.2	30.2	33.6
Other services	9.9	4.9	14.0	8.1	8.1	8.5	8.9	9.4	9.8	10.3	10.9	11.4
COGS(Non-GAAP)	1,851.4	2,037.9	2,177.4	2,387.9	1,824.9	2,036.6	2,404.7	2,633.4	2,239.5	2,561.2	2,689.2	2,777.8
Gross Profit (Non-GAAP)	1,871.6	2,114.7	2,274.2	2,426.8	1,653.3	1,904.8	2,267.7	2,443.9	2,296.1	2,569.2	2,614.8	2,719.4
Operating Expense	1,450.0	1,149.0	1,241.5	1,104.0	1,053.8	989.8	1,348.0	1,292.0	1,217.6	1,221.9	1,366.7	1,231.3
S&M	567.5	517.5	701.3	671.8	591.3	512.4	747.6	710.8	680.3	718.3	742.6	604.7
G&A	92.9	449.8	150.4	155.8	139.1	157.7	186.9	159.2	136.1	128.3	206.9	166.9
R&D	207.4	204.4	254.0	251.0	191.3	197.1	233.6	253.9	226.8	205.2	212.2	274.9
Share-based comp expenses	593.1	139.2	165.2	172.0	139.1	157.7	186.9	203.1	181.4	205.2	212.2	219.9
EBIT	421.6	965.8	1,032.7	1,322.8	599.4	915.1	919.7	1,151.9	1,078.4	1,347.2	1,248.1	1,488.1
Adj. EBIT (ex-SBC)	1,014.7	1,105.0	1,197.9	1,494.8	738.6	1,072.7	1,106.6	1,355.0	1,259.9	1,552.4	1,460.2	1,708.0
Adj. EBITDA	-123.1	874.8	917.8	1,203.6	503.2	800.3	775.8	991.7	948.2	1,193.2	1,087.1	1,319.4
Interest Income, net	74.8	100.2	85.3	111.1	65.7	61.9	35.0	45.9	57.5	63.3	77.5	88.8
Other Income, net	-4.5	6.4	6.2	6.2	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1
Pre Tax Profit	491.9	1,072.3	1,124.2	1,440.1	671.2	983.0	960.8	1,203.8	1,142.0	1,416.6	1,331.6	1,583.0
Tax	163.7	283.9	182.6	260.6	134.2	196.6	192.2	240.8	228.4	283.3	266.3	316.6
Minority interest	-2.8	-0.7	-3.1	-3.7	-3.6	-3.6	-3.6	-3.6	-3.6	-3.6	-3.6	-3.6
Dividened on Preferred Capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Profit	289.3	789.1	944.7	1,183.2	540.5	790.0	772.3	966.7	917.2	1,136.9	1,068.9	1,270.0
Adj. Net Profit	910.3	928.3	1,109.9	1,355.2	679.7	947.6	959.1	1,169.7	1,098.6	1,342.1	1,281.0	1,489.9
Diluted EPS	1.3	3.5	4.2	5.2	2.4	3.5	3.4	4.2	4.0	4.9	4.6	5.4
Adj. Diluted EPS	4.1	4.1	4.9	6.0	3.0	4.2	4.2	5.1	4.8	5.8	5.5	6.3
Margins (%)												
Gross Margin	50.3	50.9	51.1	50.4	47.5	48.3	48.5	48.1	50.6	50.1	49.3	49.5
Operating Margin	11.3	23.3	23.2	27.5	17.2	23.2	19.7	22.7	23.8	26.3	23.5	27.1
Adj. Operating Margin	27.3	26.6	26.9	31.0	21.2	27.2	23.7	26.7	27.8	30.3	27.5	31.1
Adj. EBITDA Margin	-3.3	21.1	20.6	25.0	14.5	20.3	16.6	19.5	20.9	23.3	20.5	24.0
Net Margin	7.8	19.0	21.2	24.6	15.5	20.0	16.5	19.0	20.2	22.2	20.2	23.1
Adj. Net Margin	24.5	22.4	24.9	28.1	19.5	24.0	20.5	23.0	24.2	26.2	24.2	27.1
QoQ Growth (%)												
Net Revenue	-3.7	11.5	7.2	8.2	-27.8	13.3	18.5	8.7	-10.7	13.1	3.4	3.6
Gross Profit	6.2	13.0	7.5	6.7	-31.9	15.2	19.1	7.8	-6.0	11.9	1.8	4.0
EBIT	-46.9	129.1	6.9	28.1	-54.7	52.7	0.5	25.2	-6.4	24.9	-7.4	19.2
Net Profit	-59.1	172.8	19.7	25.2	-54.3	46.2	-2.2	25.2	-5.1	24.0	-6.0	18.8
Adj. Net Profit	0.4	2.0	19.6	22.1	-49.8	39.4	1.2	22.0	-6.1	22.2	-4.6	16.3
Diluted EPS	-59.2	171.5	19.2	24.9	-54.3	45.4	-2.7	25.2	-5.1	23.3	-6.5	16.5
Adj. Diluted EPS	0.2	1.5	19.0	21.7	-49.8	38.7	0.7	22.0	-6.1	21.6	-5.0	14.0
YoY Growth (%)												
Net Revenue	34.7	31.7	22.0	24.6	-6.6	-5.1	5.0	5.5	30.4	30.2	13.5	8.3
Gross Profit	30.3	47.1	40.1	37.7	-11.7	-9.9	-0.3	0.7	38.9	34.9	15.3	11.3
EBIT	-55.0	7.7	60.4	66.6	42.2	-5.3	-10.9	-12.9	79.9	47.2	35.7	29.2
Net Profit	0.7	4.9	48.1	49.4	-25.3	2.1	-13.6	-13.7	61.6	41.6	33.6	27.4
Adj. Net Profit	0.7	4.9	48.1	49.4	-25.3	2.1	-13.6	-13.7	61.6	41.6	33.6	27.4
Diluted EPS	-67.5	-1.3	54.2	64.9	84.5	-1.1	-19.3	-19.1	68.0	42.5	37.0	27.5
Adj. Diluted EPS	-6.8	-1.5	40.1	47.4	-26.3	0.8	-14.7	-14.5	60.0	40.2	32.2	23.6

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	13,995	17,142	17,169	20,467	22,271
Live streaming	11,198	12,540	11,580	13,745	14,401
VAS	1,946	4,138	5,272	6,360	7,469
Mobile game	442	334	191	205	214
Marketing	221	93	91	114	137
Other services	189	37	35	42	49
COGS	(7,464)	(8,455)	(8,900)	(10,268)	(11,113)
Gross profit	6,531	8,687	8,270	10,199	11,158
S&M	(1,766)	(2,458)	(2,562)	(2,746)	(2,774)
Admin.Exp.	(310)	(849)	(643)	(638)	(650)
R&D	(677)	(917)	(876)	(919)	(1,002)
Others	(603)	(1,069)	(687)	(819)	(891)
Operating profit	3,440	3,743	3,586	5,162	6,014
Financial Cost	225	371	208	287	480
Associates	51	14	24	24	24
Pre-tax Income	3,716	4,128	3,819	5,473	6,519
Income Tax	(735)	(891)	(764)	(1,095)	(1,304)
MI	28	(10)	(14)	(14)	(14)
Net profit	3,009	456	438	628	747
Adj. net profit	3,611	4,304	3,756	5,212	6,120

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income	2,981	3,090	2,924	4,191	5,215
D&A	250	345	319	351	385
Change in WC	447	352	(637)	249	332
Others	328	603	1,046	657	784
Operating CF	2,991	4,280	4,834	3,264	5,574
Capex	(275)	(148)	(191)	(216)	(244)
Associates	-	-	-	-	-
Others	(11,789)	(3,777)	(155)	(155)	(162)
Investing CF	(12,064)	(3,925)	(345)	(371)	(406)
Equity raised	5,172	900	-	-	-
Change of Debts	-	-	-	-	-
Others	313	(1,670)	(3,064)	(4,218)	(5,334)
Financing CF	5,485	(770)	(3,064)	(4,218)	(5,334)
Net change in cash	(2,300)	138	(146)	985	1,083
Cash (beg of yr)	4,752	2,409	2,514	2,369	3,504
FX	-	-	-	-	-
Cash (end of yr)	2,452	2,547	2,369	3,354	4,587

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	6,275	6,449	6,464	6,485	7,476
Fixed asset	412	358	384	404	488
Associates	269	280	291	301	302
Intangible assets	-	-	-	-	-
Others	4,826	5,613	5,604	5,604	6,440
Current assets	12,633	15,225	15,034	16,023	19,675
Cash	2,468	2,519	2,369	3,354	5,046
Deposit over 3 months	8,825	11,869	11,850	11,850	13,618
Account receivable	720	256	235	240	344
Others	621	582	581	581	667
Current liabilities	2,696	2,513	1,851	2,105	2,854
Borrowings	-	-	-	-	-
Account payable	718	689	516	588	789
Tax payable	-	-	-	-	-
Others	1,978	1,824	1,335	1,518	2,065
NC liabilities	5,160	5,936	5,927	5,927	6,811
Borrowings	-	-	-	-	-
Others	5,160	5,936	5,927	5,927	6,811
MI	-	-	-	-	-
Total net assets	11,023	13,225	13,720	14,476	17,487
Shareholders' equity	11,023	13,225	13,720	14,476	17,487

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Live streaming	80.0	73.2	67.4	67.2	64.7
VAS	13.9	24.1	30.7	31.1	33.5
Mobile game	3.2	2.0	1.1	1.0	1.0
Mobile marketing	1.6	0.5	0.5	0.6	0.6
Other services	1.3	0.2	0.2	0.2	0.2
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	53.6	21.3	(0.1)	19.2	8.8
Gross profit	40.8	31.7	(5.1)	23.3	9.4
EBIT	37.9	7.1	(3.9)	43.9	16.5
Net profit	40.2	17.9	(12.8)	38.7	17.4
P&L ratios (%)					
OPM	24.6	21.8	20.9	25.2	27.0
Pre-tax margin	26.5	24.1	22.2	26.7	29.3
Net margin	21.5	2.7	2.6	3.1	3.4
Tax rate	(19.8)	(21.7)	(20.0)	(20.0)	(20.0)
Returns (%)					
ROE	33.5	29.8	26.6	36.2	41.0
ROA	25.8	20.7	16.7	22.7	25.4
Per share					
EPS (RMB)	16.92	18.93	16.31	22.29	23.91
DPS (RMB)	4.30	0.00	0.00	0.00	0.00
BVPS (RMB)	49.70	61.01	63.10	66.27	69.44

Source: Company data, CMBIS estimates

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