

Momo (MOMO US)

Solid 3Q19; Eyes on Tantan's initiatives

Momo delivered solid 3Q19 results, with topline/bottom line growing 22%/41% YoY, 3%/10% above consensus. 4Q19 guidance modestly beat. Despite slower-than-expected user recovery, we suggest investors to look beyond 3Q19, and focus more on VAS long-term expansion and potential surprise from its new app. Maintain BUY with unchanged TP of US\$45.

- **3Q19 beat.** 3Q19 revenue grew 22% YoY, 4%/3% higher than CMBI/consensus. Non-GAAP net profit grew 41% YoY, 11%/10% above CMBI/consensus. Mgmt. guided solid 4Q19E revenue at RMB4.52bn-RMB4.62bn (midpoint +19% YoY), 1% above consensus.
- **Modest user recovery in 4Q19E on anti-spam efforts.** Momo's 3Q19 MAU flat at 114.1mn (vs. 113.5mn in 2Q19), while paying users up to 13.4 mn (+14% QoQ). We expect modest sequential growth for both Momo's MAU and paying users in 4Q19E, for anti-spam efforts. Tantan's paying users reached 4.5mn (vs. 3.2mn in 2Q19), and we expect its paying users to see sequential growth (but lower than 5mn net adds in 1Q19) in 4Q19E for anti-spam and iOS issues. Despite slower-than-expected user recovery, we keep positive on its long-term user expansion, driven by enriching interactive features and upcoming lower-tier cities penetration.
- **4Q19E margin intact.** Momo's livestreaming/VAS grew 18%/84% YoY in 3Q19, above our estimates. We expect solid live streaming momentum to continue in 4Q19E. We estimate Tantan's revenue to grow 52% YoY in 4Q19E. More upside might derive from its Flash chat features and enhanced monetization. We expect its GPM to decline 2ppts QoQ (for annual tournament), but OPM to stay intact in 4Q19E (mainly on manageable S&M and R&D efforts).
- **Maintain BUY.** We keep financials estimate barely changed, and maintain our TP of US\$45 unchanged (**14x FY20E P/E**). The stock is now trading at **13.6x/11.3x** FY19/20E P/E. Valuation is pretty attractive. We suggest investors to look beyond modest 3Q19 and weak seasonality in 1Q20, and focus more on VAS long-term expansion supported by Tantan's new features, Momo's VAS enhancement, and its new app initiatives (e.g. More Serious Matchmaking <牵手恋爱>).

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	8,718	13,995	16,913	19,543	22,571
YoY growth (%)	127.1	60.5	20.8	15.6	15.5
Net income (RMB mn)	2,464	3,611	4,184	5,177	6,138
EPS (RMB)	12.5	16.9	18.3	22.1	25.8
YoY growth (%)	106.4	35.9	8.8	20.1	16.8
P/E (x)	18.7	13.8	13.6	11.3	9.7
P/B (x)	6.4	4.4	3.7	3.5	3.3
Yield (%)	0.0	2.0	0.0	0.0	0.0
ROE (%)	37.4	33.5	30.0	38.4	42.6
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price	US\$45.0
(Previous TP	US\$45.0)
Up/Downside	+25.0%
Current Price	US\$36.0

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

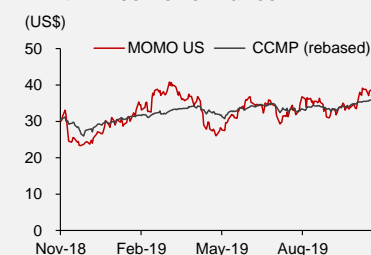
FMR	10.7%
BlackRock	8.4%
Renaissance Tech	8.0%
Source: Bloomberg	

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

1. 3Q19E Preview: user recovery to come – 21 Oct 2019
2. Solid 2Q19; Expecting rebound in 2H19E – 28 Aug 2019
3. Moving to 2H19E recovery – 10 Jul 2019
4. Solid 1Q19; Limited impact from regulations – 29 May 2019

Figure 1: CMBI estimates vs consensus

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	16,913	19,543	22,571	16,544	19,119	22,050	2.2%	2.2%	2.4%
Gross Profit	8,504	9,676	11,316	8,182	9,473	11,053	3.9%	2.1%	2.4%
Operating Profit	3,645	5,269	6,120	3,583	5,230	6,056	1.7%	0.7%	1.1%
Net profit	4,184	5,177	6,138	4,179	5,113	6,048	0.1%	1.3%	1.5%
EPS (RMB)	18.34	22.10	25.81	18.11	22.22	25.89	1.3%	-0.5%	-0.3%
Gross Margin	50.3%	49.5%	50.1%	49.5%	49.5%	50.1%	+0.8ppts	+0.0ppts	+0.0ppts
Operating Margin	21.6%	27.0%	27.1%	21.7%	27.4%	27.5%	-0.1ppts	-0.4ppts	-0.4ppts
Net Margin	24.7%	26.5%	27.2%	25.9%	26.7%	27.4%	-1.2ppts	-0.2ppts	-0.2ppts

Source: Company data, CMBIS estimates

Figure 2: CMBI estimates vs consensus

RMB mn, Dec-YE	CMBI			Consensus			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	16,913	19,543	22,571	16,779	19,933	22,720	0.8%	-2.0%	-0.7%
Gross Profit	8,504	9,676	11,316	8,328	9,892	11,306	2.1%	-2.2%	0.1%
Operating Profit	3,645	5,269	6,120	3,338	5,171	6,077	9.2%	1.9%	0.7%
Net profit	4,184	5,177	6,138	4,292	5,287	6,150	-2.5%	-2.1%	-0.2%
EPS (RMB)	18.34	22.10	25.81	18.35	22.48	25.52	0.0%	-1.7%	1.1%
Gross Margin	50.3%	49.5%	50.1%	49.6%	49.6%	49.8%	+0.7ppts	-0.1ppts	+0.4ppts
Operating Margin	21.6%	27.0%	27.1%	19.9%	25.9%	26.7%	+1.7ppts	+1.0ppts	+0.4ppts
Net Margin	24.7%	26.5%	27.2%	25.6%	26.5%	27.1%	-0.8ppts	+0.0ppts	+0.1ppts

Source: Company data, Bloomberg

Figure 3: Momo's 3Q19 Review

RMB mn	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	QoQ	YoY	Consensus	Diff %
Revenue	2,764	3,152	3,648	3,865	3,723	4,153	4,452	7.2%	22.0%	4,302	3%
Operating Profit	937	897	644	794	422	966	1,033	6.9%	60.4%	878	18%
Net profit	825	751	580	708	289	789	945	19.7%	63.0%	697	36%
Adj. net profit	904	885	750	907	910	928	1,088	17.2%	45.2%	989	10%
EPS	4.36	4.18	3.50	4.05	4.06	4.12	4.90	19.0%	40.1%	4.38	12%
Margin (%)											
Gross Margin	51.9%	45.6%	44.5%	45.6%	50.3%	50.9%	51.1%			49.4%	
Operating Margin	33.9%	28.4%	17.7%	20.5%	11.3%	23.3%	23.2%			20.4%	
Adj. net margin	32.7%	28.1%	20.5%	23.5%	24.5%	22.4%	24.4%			23.0%	
Growth (%)											
Revenue (YoY)	51.3%	48.5%	55.9%	51.3%	34.7%	31.7%	22.0%			18.0%	
Revenue (QoQ)	8.2%	14.0%	15.7%	6.0%	-3.7%	11.5%	7.2%			-9.1%	
Operating Profit	49.4%	78.8%	9.6%	12.1%	-55.0%	7.7%	60.4%			20.2%	
Adj. net profit	44.6%	66.6%	21.1%	24.7%	0.7%	4.9%	45.2%			32.0%	

Source: Company data, Bloomberg, CMBIS estimates

Figure 4: 3Q19 Revenue breakdown

RMB mn	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	QoQ	YoY
Total revenue	2,764	3,152	3,648	3,865	3,723	4,153	4,452	7%	22%
Live broadcasting	2,360	2,621	2,769	2,975	2,689	3,100	3,275	6%	18%
VAS	235	352	573	726	904	948	1,065	12%	86%
Mobile game	42	142	117	123	81	76	82	7%	-30%
Mobile marketing	119	35	28	26	39	23	16	-32%	-43%
Other services	8	2	160	15	10	5	14	185%	-91%

Source: Company data

Figure 5: Quarterly financials

	2018A				2019E				2020E			
(RMB mn, YE Dec 31)	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19E	1Q20E	2Q20E	3Q20E	4Q20E
Net Revenue	2,764.4	3,152.1	3,647.6	3,865.0	3,722.9	4,152.6	4,451.6	4,585.3	4,399.5	4,735.6	5,064.2	5,343.7
Live broadcasting service	2,360.1	2,620.9	2,769.2	2,975.4	2,689.4	3,099.9	3,275.4	3,380.7	3,175.7	3,368.8	3,530.4	3,673.1
VAS	235.0	352.2	573.1	726.4	903.9	948.4	1,064.6	1,083.0	1,150.0	1,251.1	1,427.0	1,553.7
Mobile game	42.2	142.0	117.3	122.8	80.7	76.2	81.9	78.5	35.9	72.9	56.9	56.6
Mobile marketing	118.9	34.8	27.9	25.6	39.0	23.2	15.8	28.5	22.8	26.9	33.2	42.8
Other services	8.2	2.3	160.0	14.7	9.9	4.9	14.0	14.7	15.1	15.9	16.7	17.5
COGS(Non-GAAP)	1,328.5	1,714.8	2,024.8	2,102.8	1,851.4	2,037.9	2,177.4	2,341.5	2,234.7	2,389.9	2,561.4	2,680.9
Gross Profit (Non-GAAP)	1,435.9	1,437.3	1,622.8	1,762.2	1,871.6	2,114.7	2,274.2	2,243.8	2,164.8	2,345.7	2,502.7	2,662.8
Operating Expense	498.8	540.6	978.9	968.3	1,450.0	1,149.0	1,241.5	1,018.9	1,022.3	1,077.9	1,171.9	1,135.3
S&M	267.1	323.0	532.0	584.6	567.5	517.5	701.3	596.1	527.9	615.6	607.7	587.8
G&A	63.2	48.8	68.2	118.9	92.9	449.8	150.4	91.7	105.4	118.4	166.1	101.5
R&D	96.8	135.0	214.1	207.8	207.4	204.4	254.0	183.4	220.0	189.4	202.6	267.2
Share-based comp expenses	78.7	134.0	170.0	199.1	593.1	139.2	165.2	183.4	176.0	189.4	202.6	213.7
EBIT	937.1	896.7	643.8	793.9	421.6	965.8	1,032.7	1,224.9	1,142.5	1,267.9	1,330.8	1,527.5
Adj. EBIT (ex-SBC)	1,015.7	1,030.6	813.8	993.0	1,014.7	1,105.0	1,197.9	1,408.3	1,318.5	1,457.3	1,533.4	1,741.3
Adj. EBITDA	889.9	797.8	513.2	637.3	-123.1	874.8	917.8	1,084.8	1,015.4	1,127.3	1,177.1	1,362.6
Interest Income, net	47.9	40.1	58.3	70.5	74.8	100.2	85.3	80.2	31.1	39.6	51.5	63.7
Other Income, net	8.1	10.8	16.5	13.3	-4.5	6.4	6.2	6.2	6.1	6.1	6.1	6.1
Pre Tax Profit	993.1	947.6	718.7	877.7	491.9	1,072.3	1,124.2	1,311.3	1,179.7	1,313.6	1,388.3	1,597.3
Tax	170.9	198.6	146.8	184.3	163.7	283.9	182.6	262.3	235.9	262.7	277.7	319.5
Minority interest	-3.0	-2.2	-7.7	-14.5	-2.8	-0.7	-3.1	-3.1	-3.1	-3.1	-3.1	-3.1
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	825.2	751.1	579.5	707.9	289.3	789.1	944.7	1,052.2	946.8	1,053.9	1,113.7	1,280.9
Adj. Net Profit	903.8	885.1	749.5	907.0	910.3	928.3	1,109.9	1,235.6	1,122.8	1,243.3	1,316.3	1,494.6
Diluted EPS	4.0	3.6	2.7	3.2	1.3	3.5	4.2	4.6	4.1	4.5	4.8	5.5
Adj. Diluted EPS	4.4	4.2	3.5	4.1	4.1	4.1	4.9	5.4	4.9	5.4	5.6	6.4
Margins (%)												
Gross Margin	51.9	45.6	44.5	45.6	50.3	50.9	51.1	48.9	49.2	49.5	49.4	49.8
Operating Margin	33.9	28.4	17.7	20.5	11.3	23.3	23.2	26.7	26.0	26.8	26.3	28.6
Adj. Operating Margin	36.7	32.7	22.3	25.7	27.3	26.6	26.9	30.7	30.0	30.8	30.3	32.6
Adj. EBITDA Margin	32.2	25.3	14.1	16.5	-3.3	21.1	20.6	23.7	23.1	23.8	23.2	25.5
Net Margin	29.8	23.8	15.9	18.3	7.8	19.0	21.2	22.9	21.5	22.3	22.0	24.0
Adj. Net Margin	32.7	28.1	20.5	23.5	24.5	22.4	24.9	26.9	25.5	26.3	26.0	28.0
QoQ Growth (%)												
Net Revenue	8.2	14.0	15.7	6.0	-3.7	11.5	7.2	3.0	-4.1	7.6	6.9	5.5
Gross Profit	16.3	0.1	12.9	8.6	6.2	13.0	7.5	-1.3	-3.5	8.4	6.7	6.4
EBIT	32.3	-4.3	-28.2	23.3	-46.9	129.1	6.9	18.6	-6.7	11.0	5.0	14.8
Net Profit	28.0	-9.0	-22.8	22.2	-59.1	172.8	19.7	11.4	-10.0	11.3	5.7	15.0
Adj. Net Profit	24.3	-2.1	-15.3	21.0	0.4	2.0	19.6	11.3	-9.1	10.7	5.9	13.6
Diluted EPS	28.4	-10.7	-23.8	16.8	-59.2	171.5	19.2	9.2	-10.0	10.8	5.2	15.0
Adj. Diluted EPS	24.7	-3.9	-16.3	15.7	0.2	1.5	19.0	9.1	-9.1	10.2	5.3	13.6
YoY Growth (%)												
Net Revenue	51.3	48.5	55.9	51.3	34.7	31.7	22.0	18.6	18.2	14.0	13.8	16.5
Gross Profit	43.6	30.4	38.9	42.8	30.3	47.1	40.1	27.3	15.7	10.9	10.0	18.7
EBIT	49.4	78.8	9.6	12.1	-55.0	7.7	60.4	54.3	171.0	31.3	28.9	24.7
Net Profit	44.6	66.6	21.1	24.7	0.7	4.9	48.1	36.2	23.3	33.9	18.6	21.0
Adj. Net Profit	44.6	66.6	21.1	24.7	0.7	4.9	48.1	36.2	23.3	33.9	18.6	21.0
Diluted EPS	46.0	67.0	8.2	2.1	-67.5	-1.3	54.2	44.2	217.8	29.7	14.4	20.5
Adj. Diluted EPS	43.2	64.0	18.0	16.0	-6.8	-1.5	40.1	32.1	19.8	30.1	15.1	19.8

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	8,718	13,995	16,913	19,543	22,571
Live streaming	7,291	11,198	12,445	13,748	15,255
VAS	682	1,946	4,000	5,382	6,807
Mobile game	462	442	317	222	256
Marketing	277	221	107	126	174
Other services	5	189	44	65	79
COGS	(4,280)	(7,464)	(8,408)	(9,867)	(11,255)
Gross profit	4,437	6,531	8,504	9,676	11,316
S&M	(1,377)	(1,766)	(2,382)	(2,339)	(2,812)
Admin.Exp.	(221)	(310)	(785)	(491)	(551)
R&D	(279)	(677)	(849)	(879)	(1,015)
Others	(328)	(603)	(1,081)	(782)	(903)
Operating profit	2,386	3,440	3,645	5,269	6,120
Financial Cost	143	225	340	186	384
Associates	39	51	14	24	24
Pre-tax Income	2,568	3,716	4,000	5,479	6,528
Income Tax	(436)	(735)	(892)	(1,096)	(1,306)
MI	4	28	(10)	(12)	(12)
Net profit	2,136	3,009	437	628	748
Adj. net profit	2,464	3,611	4,184	5,177	6,138

Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Net income	2,132	2,981	2,968	4,195	4,999
D&A	82	250	335	337	366
Change in WC	448	447	(48)	(63)	146
Others	236	328	603	1,056	748
Operating CF	1,515	2,991	4,280	4,312	5,218
Capex	(260)	(275)	(175)	(210)	(239)
Associates	-	-	-	-	-
Others	(112)	(11,789)	(1,505)	(150)	(150)
Investing CF	(372)	(12,064)	(1,681)	(361)	(390)
Equity raised	2	5,172	(13)	-	-
Change of Debts	-	-	-	-	-
Others	222	313	(2,019)	(4,037)	(4,854)
Financing CF	224	5,485	(2,032)	(4,037)	(4,854)
Net change in cash	2,843	(2,300)	599	820	1,131
Cash (beg of yr)	1,703	4,752	2,409	2,975	3,795
FX	-	-	-	-	-
Cash (end of yr)	4,546	2,452	3,008	3,795	4,925

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Non-current assets	737	6,275	5,982	5,995	6,019
Fixed asset	276	412	394	417	440
Associates	288	269	280	291	301
Intangible assets	-	-	-	-	-
Others	173	4,826	5,113	5,104	5,104
Current assets	7,734	12,633	14,017	14,826	15,973
Cash	4,473	2,468	2,980	3,795	4,925
Deposit over 3 months	2,432	8,825	10,102	10,085	10,085
Account receivable	258	720	324	336	352
Others	572	621	611	610	610
Current liabilities	1,692	2,696	2,211	2,157	2,318
Borrowings	-	-	-	-	-
Account payable	485	718	732	660	734
Tax payable	-	-	-	-	-
Others	1,207	1,978	1,479	1,497	1,584
NC liabilities	27	5,160	5,023	5,015	5,015
Borrowings	-	-	-	-	-
Others	15	5,160	5,023	5,015	5,015
MI	-	-	-	-	-
Total net assets	6,752	11,023	12,765	13,650	14,659
Shareholders' equity	6,752	11,023	12,765	13,650	14,659

Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Sales mix (%)					
Live streaming	83.6	80.0	73.6	70.3	67.6
VAS	7.8	13.9	23.7	27.5	30.2
Mobile game	5.3	3.2	1.9	1.1	1.1
Mobile marketing	3.2	1.6	0.6	0.6	0.8
Other services	0.1	1.3	0.3	0.3	0.4
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	138.3	53.6	19.7	15.2	15.5
Gross profit	114.4	40.8	29.0	13.4	17.0
EBIT	149.8	37.9	4.4	44.9	16.2
Net profit	110.6	40.2	14.7	23.5	18.6
P&L ratios (%)					
OPM	27.4	24.6	21.6	27.0	27.1
Pre-tax margin	29.5	26.5	23.6	28.0	28.9
Net margin	24.5	21.5	2.6	3.2	3.3
Tax rate	(17.0)	(19.8)	(22.4)	(20.0)	(20.0)
Returns (%)					
ROE	37.4	33.5	30.0	38.4	42.6
ROA	36.0	25.8	21.0	24.3	27.4
Per share					
EPS (RMB)	12.46	16.92	18.34	22.10	25.81
DPS (RMB)	0.00	4.30	0.00	0.00	0.00
BVPS (RMB)	34.60	49.70	58.89	62.77	67.10

Source: Company data, CMBIS estimates

Disclosures & Disclaimers

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