

Momo (MOMO US)

1Q20E Preview: Cautious on recovery path

We expect Momo to deliver in-line 1Q20E results on 28 May, with revenue at RMB3.48bn (-7% YoY) and adj. net profit at RMB680mn (-25% YoY). 2Q20E would still see pressure, given moderate traffic and suppressed gifting willingness. We turn more conservative on its recovery path, given multiple headwinds and competition from short videos. We slightly cut its bottom line by 2%/8%/5% in FY20/21/22E, and trimmed our TP to US\$29.4 (13x FY20E P/E). Maintain BUY for low valuation, and upcoming catalysts (e.g. topline recovery, Tantan's monthly breakeven).

- **Expecting in-line 1Q20E results but soft guidance.** We expect Momo's revenue/ adj. net profit to decline 7%/25% YoY in 1Q20E (at the midpoint of guidance) on account of COVID-19 impact, lucky draw features and weak seasonality. It would take time to see meaningful recovery, and we expect a soft 2Q20E quarter ahead, with topline at RMB3.8bn (-8% YoY, +9% QoQ).
- **Livestreaming headwinds yet over.** We forecast its livestreaming/VAS revenue to trend -15%/+25% YoY in 1Q20E. User metrics would see decline in 1Q20E, and gradually recover in 2Q20E while financials recovery might lagged behind users. Momo would still bear near-term pressure from COVID-19 in 1H20E due to: 1) soft momentum with work resumption delay and social distance; and 2) suppressed gifting willingness by soft consumption power under macro uncertainty, especially for top spenders. We turn more conservative on its live streaming growth in 2H20E, and expect it to deliver positive revenue YoY growth until 1Q21E. We cut its revenue by 5% in FY20E, to reflect its slower recovery path.
- **Tantan to face near-term user growth pressure.** We expect Tantan's MAU & paying users to decline 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. In terms of margin, we forecast its 1Q20E adj. net margin at full-year lowest level of 19.5% owing to higher agencies sharing, soft topline and content innovations.
- **Maintain BUY.** We cut its earnings by 2%/8%/5% in FY20/21/22E, and trimmed our TP from US\$35 to US\$29.4 (13x/10x FY20/21E P/E). Given multiple challenges from COVID-19 and traffic pressure in 1H20E, we suggest investors to wait for more clear signals for its recovery.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	13,995	17,142	16,387	19,202	21,100
YoY growth (%)	60.5	22.5	-4.4	17.2	9.9
Net income (RMB mn)	3,611	4,304	3,672	4,789	5,792
EPS (RMB)	16.9	18.9	15.9	20.5	22.6
YoY growth (%)	35.9	12.3	-16.1	28.5	19.4
Consensus EPS (RMB)	NA	NA	15.4	18.9	21.2
P/E (x)	8.2	7.3	8.7	6.8	5.7
P/B (x)	3.1	2.6	2.5	2.4	2.3
Yield (%)	2.0	0.0	0.0	0.0	1.0
ROE (%)	33.5	29.8	26.2	33.2	38.9
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	US\$29.4
(Previous TP	US\$35.0)
Up/Downside	+31.2%
Current Price	US\$22.4

China Internet Sector

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Stock Data

Mkt Cap (US\$ mn)	4,326
Avg 3 mths t/o (US\$ mn)	96.5
52w High/Low (US\$)	39.4/18.6
Total Issued Shares (mn)	169.2

Source: Bloomberg

Shareholding Structure

Pendal Group	8.2%
Renaissance Tech	7.9%
BlackRock	4.3%

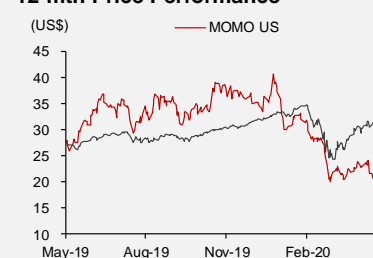
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-12.9%	-16.5%
3-mth	-34.9%	-29.7%
6-mth	-45.9%	-48.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Related Reports

1. Mixed 4Q19; Waiting for 2H20E recovery – 23 Mar 2020
2. Solid 3Q19; Eyes on Tantan's initiatives – 28 Nov 2019
3. 3Q19E Preview: user recovery to come – 21 Oct 2019
4. Solid 2Q19; Expecting rebound in 2H19E – 28 Aug 2019
5. Moving to 2H19E recovery – 10 Jul 2019

Figure 1: Earnings revision

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	16,387	19,202	21,100	17,169	20,467	22,271	-4.6%	-6.2%	-5.3%
Gross Profit	7,992	9,433	10,553	8,270	10,199	11,158	-3.4%	-7.5%	-5.4%
Operating Profit	3,523	4,710	5,688	3,586	5,162	6,014	-1.8%	-8.7%	-5.4%
Net profit	3,672	4,789	5,792	3,756	5,212	6,120	-2.2%	-8.1%	-5.4%
EPS (RMB)	15.94	20.48	22.62	16.31	22.29	23.91	-2.2%	-8.1%	-5.4%
Gross Margin	48.8%	49.1%	50.0%	48.2%	49.8%	50.1%	+0.6ppts	-0.7ppts	-0.1ppts
Operating Margin	21.5%	24.5%	27.0%	20.9%	25.2%	27.0%	+0.6ppts	-0.7ppts	+0.0ppts
Net Margin	22.4%	24.9%	27.4%	21.9%	25.5%	27.5%	+0.5ppts	-0.5ppts	+0.0ppts

Source: CMBIS estimates

Figure 2: CMBIS estimates vs consensus

RMB mn, Dec-YE	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	16,387	19,202	21,100	17,057	19,707	21,360	-3.9%	-2.6%	-1.2%
Gross Profit	7,992	9,433	10,553	8,199	9,640	10,479	-2.5%	-2.1%	0.7%
Operating Profit	3,523	4,710	5,688	3,562	4,801	5,315	-1.1%	-1.9%	7.0%
Net profit	3,672	4,789	5,792	3,677	4,740	5,344	-0.1%	1.0%	8.4%
EPS (RMB)	15.94	20.48	22.62	15.44	18.94	21.21	3.3%	8.2%	6.6%
Gross Margin	48.8%	49.1%	50.0%	48.1%	48.9%	49.1%	+0.7ppts	+0.2ppts	-1.0ppts
Operating Margin	21.5%	24.5%	27.0%	20.9%	24.4%	24.9%	+0.6ppts	+0.2ppts	+2.1ppts
Net Margin	22.4%	24.9%	27.4%	21.6%	24.1%	25.0%	+0.9ppts	+0.9ppts	+2.4ppts

Source: Company data, Bloomberg

Figure 3: Momo's 1Q20E Preview

RMB mn	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20E	QoQ	YoY	Consensus	Diff %
Revenue	2,764	3,152	3,648	3,844	3,723	4,153	4,452	4,688	3,478	-25.8%	-6.6%	3,488	0%
Operating Profit	937	897	644	794	422	966	1,033	1,249	599	-52.0%	42.2%	649	-8%
Net profit	825	751	580	708	289	789	945	1,056	541	-48.8%	86.8%	501	8%
Adj. net profit	904	885	750	887	910	928	1,088	1,253	680	-45.7%	-25.3%	677	0%
EPS	4.36	4.18	3.50	4.05	4.06	4.12	4.90	5.61	2.99	-46.6%	-26.3%	3.07	-3%
Margin (%)													
Gross Margin	51.9%	45.6%	44.5%	45.6%	50.3%	50.9%	51.1%	49.8%	47.5%			47.3%	
Operating Margin	33.9%	28.4%	17.7%	20.5%	11.3%	23.3%	23.2%	26.7%	17.2%			18.6%	
Adj. net margin	32.7%	28.1%	20.5%	23.5%	24.5%	22.4%	24.4%	26.7%	19.5%			19.4%	
Growth (%)													
Revenue (YoY)	51.3%	48.5%	55.9%	50.5%	34.7%	31.7%	22.0%	22.0%	-6.6%			-6.3%	
Revenue (QoQ)	8.2%	14.0%	15.7%	5.4%	-3.1%	11.5%	7.2%	5.3%	-25.8%			-25.6%	
Operating Profit	49.4%	78.8%	9.6%	12.1%	-55.0%	7.7%	60.4%	57.4%	42.2%			53.9%	
Adj. net profit	44.6%	66.6%	21.1%	22.0%	0.7%	4.9%	45.2%	41.1%	-25.3%			-25.6%	

Source: Company data, Bloomberg, CMBIS estimates

Figure 4: 1Q20E Revenue breakdown

RMB mn	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20E	QoQ	YoY
Total revenue	2,764	3,152	3,648	3,865	3,723	4,153	4,452	4,688	3,478	-26%	-7%
Live broadcasting	2,360	2,621	2,769	2,975	2,689	3,100	3,275	3,383	2,289	-32%	-15%
VAS	235	352	573	726	904	948	1,065	1,189	1,130	-5%	25%
Mobile marketing	42	142	117	123	81	76	82	93	34	-63%	-57%
Mobile games	119	35	28	26	39	23	16	14	17	20%	-56%
Other services	8	2	160	15	10	5	14	8	8	3%	-18%

Source: Company data, CMBIS estimates

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	3,801.3	4,327.9	4,779.7	4,349.9	4,747.0	4,945.3	5,160.2
Live broadcasting service	2,689.4	3,099.9	3,275.4	3,474.9	2,288.5	2,490.9	2,824.7	3,193.5	2,820.7	3,073.1	3,228.0	3,358.1
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	1,981.0	2,165.6	2,423.1	2,206.8	2,410.7	2,523.1	2,628.3
Gross Profit (Non-GAAP)	1,871.6	2,114.7	2,274.2	2,426.8	1,653.3	1,820.2	2,162.3	2,356.6	2,143.1	2,336.3	2,422.2	2,531.9
Operating Expense	1,450.0	1,149.0	1,241.5	1,104.0	1,053.8	953.3	1,248.1	1,214.2	1,167.5	1,128.0	1,273.8	1,153.7
S&M	567.5	517.5	701.3	671.8	591.3	494.2	692.5	669.2	652.5	664.6	692.3	567.6
G&A	92.9	449.8	150.4	155.8	139.1	152.1	173.1	149.9	130.5	118.7	192.9	156.6
R&D	207.4	204.4	254.0	251.0	191.3	190.1	216.4	239.0	217.5	189.9	197.8	258.0
Share-based comp expenses	593.1	139.2	165.2	172.0	139.1	152.1	173.1	191.2	174.0	189.9	197.8	206.4
EBIT	421.6	965.8	1,032.7	1,322.8	599.4	866.9	914.2	1,142.4	975.6	1,208.3	1,148.3	1,378.2
Adj. EBIT (ex-SBC)	1,014.7	1,105.0	1,197.9	1,494.8	738.6	1,018.9	1,087.3	1,333.6	1,149.6	1,398.1	1,346.1	1,584.6
Adj. EBITDA	-123.1	874.8	917.8	1,203.6	501.3	755.8	782.1	992.2	849.6	1,066.4	998.5	1,219.8
Interest Income, net	74.8	100.2	85.3	111.1	65.7	61.9	34.0	43.6	55.4	61.3	73.3	83.9
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	934.8	954.3	1,192.0	1,037.1	1,275.6	1,227.7	1,468.2
Tax	163.7	283.9	182.6	260.6	134.2	187.0	190.9	238.4	207.4	255.1	245.5	293.6
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	751.5	767.0	957.2	833.2	1,024.1	985.7	1,178.1
Adj. Net Profit	910.3	928.3	1,109.9	1,355.2	679.7	903.5	940.2	1,148.4	1,007.2	1,214.0	1,183.6	1,384.6
Diluted EPS	1.3	3.5	4.2	5.2	2.4	3.3	3.3	4.2	3.6	4.4	4.3	5.0
Adj. Diluted EPS	4.1	4.1	4.9	6.0	3.0	4.0	4.1	5.0	4.4	5.3	5.1	5.9
Margins (%)												
Gross Margin	50.3	50.9	51.1	50.4	47.5	47.9	50.0	49.3	49.3	49.2	49.0	49.1
Operating Margin	11.3	23.3	23.2	27.5	17.2	22.8	21.1	23.9	22.4	25.5	23.2	26.7
Adj. Operating Margin	27.3	26.6	26.9	31.0	21.2	26.8	25.1	27.9	26.4	29.5	27.2	30.7
Adj. EBITDA Margin	-3.3	21.1	20.6	25.0	14.4	19.9	18.1	20.8	19.5	22.5	20.2	23.6
Net Margin	7.8	19.0	21.2	24.6	15.5	19.8	17.7	20.0	19.2	21.6	19.9	22.8
Adj. Net Margin	24.5	22.4	24.9	28.1	19.5	23.8	21.7	24.0	23.2	25.6	23.9	26.8
QoQ Growth (%)												
Net Revenue	-3.7	11.5	7.2	8.2	-27.8	9.3	13.9	10.4	-9.0	9.1	4.2	4.3
Gross Profit	6.2	13.0	7.5	6.7	-31.9	10.1	18.8	9.0	-9.1	9.0	3.7	4.5
EBIT	-46.9	129.1	6.9	28.1	-54.7	44.6	5.5	25.0	-14.6	23.8	-5.0	20.0
Net Profit	-59.1	172.8	19.7	25.2	-54.3	39.0	2.1	24.8	-13.0	22.9	-3.7	19.5
Adj. Net Profit	0.4	2.0	19.6	22.1	-49.8	32.9	4.1	22.2	-12.3	20.5	-2.5	17.0
Diluted EPS	-59.2	171.5	19.2	24.9	-54.3	38.3	1.6	24.8	-13.0	22.3	-4.2	17.2
Adj. Diluted EPS	0.2	1.5	19.0	21.7	-49.8	32.3	3.5	22.2	-12.3	19.9	-3.0	14.7
YoY Growth (%)												
Net Revenue	34.7	31.7	22.0	24.6	-6.6	-8.5	-2.8	-0.7	25.1	24.9	14.3	8.0
Gross Profit	30.3	47.1	40.1	37.7	-11.7	-13.9	-4.9	-2.9	29.6	28.4	12.0	7.4
EBIT	-55.0	7.7	60.4	66.6	42.2	-10.2	-11.5	-13.6	62.8	39.4	25.6	20.6
Net Profit	0.7	4.9	48.1	49.4	-25.3	-2.7	-15.3	-15.3	48.2	34.4	25.9	20.6
Adj. Net Profit	0.7	4.9	48.1	49.4	-25.3	-2.7	-15.3	-15.3	48.2	34.4	25.9	20.6
Diluted EPS	-67.5	-1.3	54.2	64.9	84.5	-6.0	-19.9	-19.9	52.6	34.9	27.2	19.5
Adj. Diluted EPS	-6.8	-1.5	40.1	47.4	-26.3	-3.9	-16.4	-16.1	46.7	33.0	24.6	17.0

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	13,995	17,142	16,387	19,202	21,100
Live streaming	11,198	12,540	10,798	12,480	13,230
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)	(8,395)	(9,769)	(10,547)
Gross profit	6,531	8,687	7,992	9,433	10,553
S&M	(1,766)	(2,458)	(2,447)	(2,577)	(2,629)
Admin. Exp.	(310)	(849)	(614)	(599)	(616)
R&D	(677)	(917)	(837)	(863)	(949)
Others	(603)	(1,069)	(655)	(768)	(844)
Operating profit	3,440	3,743	3,523	4,710	5,688
Financial Cost	225	371	205	274	454
Associates	51	14	24	24	24
Pre-tax Income	3,716	4,128	3,752	5,009	6,167
Income Tax	(735)	(891)	(750)	(1,002)	(1,233)
MI	28	(10)	(14)	(14)	(14)
Net profit	3,009	456	431	574	707
Adj. net profit	3,611	4,304	3,672	4,789	5,792

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income	2,981	3,090	2,873	3,835	4,933
D&A	250	345	312	339	373
Change in WC	447	352	(637)	188	210
Others	328	603	1,046	627	735
Operating CF	2,991	4,280	4,834	3,176	5,097
Capex	(275)	(148)	(182)	(203)	(231)
Associates	-	-	-	-	-
Others	(11,789)	(3,777)	(155)	(155)	(162)
Investing CF	(12,064)	(3,925)	(337)	(358)	(393)
Equity raised	5,172	900	-	-	-
Change of Debts	-	-	-	-	-
Others	313	(1,670)	(2,983)	(3,851)	(5,010)
Financing CF	5,485	(770)	(2,983)	(3,851)	(5,010)
Net change in cash	(2,300)	138	(145)	887	956
Cash (beg of yr)	4,752	2,409	2,514	2,370	3,403
FX	-	-	-	-	-
Cash (end of yr)	2,452	2,547	2,370	3,257	4,359

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	6,275	6,449	6,464	6,483	7,473
Fixed asset	412	358	383	402	485
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	15,035	15,918	19,400
Cash	2,468	2,519	2,370	3,257	4,795
Deposit over 3 months	8,825	11,869	11,850	11,850	13,618
Account receivable	720	256	235	231	319
Others	621	582	581	581	667
Current liabilities	2,696	2,513	1,851	2,035	2,624
Borrowings	-	-	-	-	-
Account payable	718	689	516	571	711
Tax payable	-	-	-	-	-
Others	1,978	1,824	1,335	1,464	1,912
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	14,440	17,438
Shareholders' equity	11,023	13,225	13,720	14,440	17,438

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Live streaming	80.0	73.2	65.9	65.0	62.7
VAS	13.9	24.1	32.2	33.1	35.4
Mobile game	3.2	2.0	1.2	1.1	1.0
Mobile marketing	1.6	0.5	0.6	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	(4.7)	17.2	9.9
Gross profit	40.8	31.7	(8.3)	18.0	11.9
EBIT	37.9	7.1	(5.6)	33.7	20.8
Net profit	40.2	17.9	(14.8)	30.4	20.9
P&L ratios (%)					
OPM	24.6	21.8	21.5	24.5	27.0
Pre-tax margin	26.5	24.1	22.9	26.1	29.2
Net margin	21.5	2.7	22.4	24.9	27.4
Tax rate	(19.8)	(21.7)	(20.0)	(20.0)	(20.0)
Returns (%)					
ROE	33.5	29.8	26.2	33.2	38.9
ROA	25.8	20.7	16.3	20.9	24.2
Per share					
EPS (RMB)	16.92	18.93	15.94	20.48	22.62
DPS (RMB)	4.30	0.00	0.00	0.00	0.00
BVPS (RMB)	49.70	61.01	63.10	66.10	69.25

Source: Company data, CMBIS estimates

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