

HUYA (HUYA US)

Challenges to linger

HUYA reported 1Q22 results with rev largely in-line while non-GAAP earnings beat. Rev -5% YoY to RMB2.5bn, with live streaming -10.1% YoY. Non-GAAP GPM was 13.5% with rising content costs and higher revenue sharing fees, while non-GAAP NP recorded at RMB47mn, 25% above consensus, attributable to lower-than-expected opex. The soft momentum in 2Q22E would continue (forecasting -19% YoY), dampened by tightening regulations. Looking into FY22E, we turn more conservative on live streaming given weaker consumption sentiment with soft macro and regulatory adjustments (removing rankings of virtual gifting from May). We trimmed FY22E-24E rev by 1-6%, to reflect epidemic impact and live streaming adjustment. Maintain BUY with lower TP at US\$6.0 (0.9x FY22E P/S).

- 1Q22 beat on margin.** Rev -5% YoY to RMB2.5bn, 2% above consensus. Live streaming -10.1% YoY due to decreasing ARPPU on HUYA Live amid the weaker macro environment, while ads and other rev +47.2% driven by the increase in content sub-licensing rev. Non-GAAP GPM was 13.5% with rising content costs and higher revenue sharing fees, while non-GAAP NP recorded at RMB47mn, ahead of consensus at RMB37mn attributable to lower-than-expected opex.
- Challenges yet over.** We expect rev to decline 19% YoY in 2Q22E, in which live streaming would remain flat QoQ, while ads and others would drop 44% YoY given the lack of sublicensing income and negative impacts on ads under lockdowns disruption. Looking into 2022E, live streaming would be more challenging, given: 1) soft macro to dampen consumption sentiment on live streaming, 2) tightening regulations that remove rankings of virtual gifting in May to lessen users' willingness to tip.
- Margin improvement to delay.** Mgmt guided that GPM will be at ~9% in 2Q22E due to stable revenue sharing ratio and slightly rising content costs. Net loss margin would be ~3% in 2Q22E, due to continuous opex optimization offset by one-off costs from the business adjustment. Going forward, we expect margin enhancement to delay with muted live streaming owing to regulatory headwinds.
- Maintain BUY.** We trimmed FY22E-24E rev by 1-6%, to reflect epidemic impact and live streaming adjustment. Maintain BUY with lower TP at US\$6.0 (0.9x FY22E P/S).

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY 24E
Revenue (RMB mn)	10,914	11,351	9,580	9,628	9,877
YoY growth (%)	30.3	4.0	-15.6	0.5	2.6
Adj. net income (RMB mn)	1,262	833	-330	-148	103
Adj. EPS (RMB)	5.29	3.45	-1.34	-0.59	0.40
YoY growth (%)	63.6	-34.8	NA	NA	NA
Consensus EPS (RMB)	NA	NA	-1.17	-0.15	1.83
P/E (x)	5.0	7.7	NA	NA	65.9
P/S (x)	0.59	0.56	0.67	0.66	0.65
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	12.9	7.9	-3.2	-1.5	1.0
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$6.0
(Previous TP)	US\$11.0)
Up/Downside	+45.3%
Current Price	US\$4.13

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Stock Data

Mkt Cap (US\$ mn)	927
Avg 3 mths t/o (US\$ mn)	12.08
52w High/Low (US\$)	18.13/ 3.04
Total Issued Shares (mn)	87
Source: Bloomberg	

Shareholding Structure

Morgan Stanley	24.57%
Teachers Insurance & Annuity	8.84%
Asso of America	
ARK Investment	6.23%
Source: Bloomberg	

Share Performance

	Absolute	Relative
1-mth	-14.1%	-2.9%
3-mth	-36.1%	-23.5%
6-mth	-59.3%	-45.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

- Reinvesting for growth - 11 Nov 2021
- Initiation: Game streaming leader with eSport tailwinds - 18 Jun 2021

Figure 1: 1Q22 financial review

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	QoQ	YoY	Consensus	Diff %
Revenue	2,412	2,697	2,815	2,990	2,605	2,962	2,976	2,809	2,465	-12%	-5%	2,415	2%
Gross profit	475	575	621	598	514	581	504	1	334	31105%	-35%	320	4%
Net profit	171	207	253	253	186	186	524	(313)	(3)	-99%	-102%	(34)	-90%
Adj. net profit	265	331	361	306	266	250	180	(241.7)	47	-119%	-82%	37	25%
Adj. EPS (RMB)	1.12	1.40	1.50	1.27	1.10	1.04	0.75	(1.00)	0.19	-119%	-83%	0.13	44%
Margin (%)													
Gross margin	19.7%	21.3%	22.0%	20.0%	19.7%	19.6%	16.9%	0.0%	13.5%			13.4%	
Operating margin	9.4%	11.3%	11.8%	9.0%	9.3%	8.4%	5.2%	-13.8%	-0.1%			13.3%	
Adj. net margin	11.0%	12.3%	12.8%	10.2%	10.2%	8.4%	6.0%	-8.6%	1.9%			1.5%	
Growth (%)													
Revenue (YoY)	47.8%	34.2%	24.3%	21.2%	8.0%	9.8%	5.7%	-6.1%	-5.4%			-14.2%	
Revenue (QoQ)	-2.3%	11.8%	4.4%	6.2%	-12.9%	13.7%	0.4%	-5.6%	-12.3%			-18.5%	
Gross profit	71.2%	69.2%	49.6%	24.2%	8.2%	1.1%	-18.8%	-99.8%	-35.1%			-48.4%	
Adj. net profit	101.9%	94.2%	75.0%	26.5%	0.3%	-24.4%	-50.2%	-179.0%	-82.5%			-89.7%	

Source: Company data, Bloomberg

Figure 2: 1Q22 revenue breakdown

	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	QoQ	YoY
Revenue (RMB mn)	2,412	2,697	2,815	2,990	2,605	2,962	2,976	2,809	2,465	-12.3%	-5.4%
Live broadcasting	2,274	2,565	2,657	2,815	2,392	2,579	2,602	2,613	2,152	-17.7%	-10.1%
Others	137	132	158	175	213	383	374	196	313	59.7%	47.2%

Source: Company data

Figure 3: CMBIGM estimates vs consensus

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	9,580	9,628	9,877	10,240	10,811	11,161	-6.4%	-10.9%	-11.5%
Gross profit	943	1,097	1,375	924	1,180	1,375	2.1%	-7.0%	0.0%
Operating profit	(564)	(368)	(84)	(526)	(280)	(27)	NA	NA	NA
Adj. net profit	(330)	(148)	103	(298)	(70)	250	NA	NA	NA
EPS (RMB)	(1.36)	(0.60)	0.41	(1.17)	(0.15)	1.83	NA	NA	NA
Gross margin	9.8%	11.4%	13.9%	9.0%	10.9%	12.3%	+0.8ppts	+0.5ppts	+1.6ppts
Operating margin	-5.9%	-3.8%	-0.8%	-5.1%	-2.6%	-0.2%	-0.7ppts	-1.2ppts	-0.6ppts
Net margin	-3.4%	-1.5%	1.0%	-2.9%	-0.6%	2.2%	-0.5ppts	-0.9ppts	-1.2ppts

Source: Company data, Bloomberg, CMBIGM estimates

Figure 4: Earnings revision

RMB mn, Dec-YE	CMBIGM			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	9,580	9,628	9,877	10,135	9,958	9,995	-5.5%	-3.3%	-1.2%
Gross profit	943	1,097	1,375	956	1,150	1,397	-1.3%	-4.6%	-1.6%
Operating profit	(564)	(368)	(84)	(590)	(339)	(74)	NA	NA	NA
Adj. net profit	(330)	(148)	103	(356)	(119)	111	NA	NA	NA
EPS (RMB)	(1.36)	(0.60)	0.41	(1.47)	(0.48)	0.45	NA	NA	NA
Gross margin	9.8%	11.4%	13.9%	9.4%	11.5%	14.0%	+0.4ppts	-0.1ppts	-0.1ppts
Operating margin	-5.9%	-3.8%	-0.8%	-5.8%	-3.4%	-0.7%	-0.1ppts	-0.4ppts	-0.1ppts
Net margin	-3.4%	-1.5%	1.0%	-3.5%	-1.2%	1.1%	+0.1ppts	-0.3ppts	-0.1ppts

Source: Company data, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenues	10,914	11,351	9,580	9,628	9,877
Live broadcasting	10,312	10,186	8,508	8,625	8,925
Others	603	1,165	1,072	1,003	952
COGS	(8,646)	(9,751)	(8,637)	(8,531)	(8,502)
Gross profit	2,268	1,600	943	1,097	1,375
R&D	(734)	(819)	(832)	(858)	(879)
S&M	(558)	(760)	(726)	(681)	(679)
G&A	(445)	(327)	(289)	(268)	(253)
Other income	194	275	95	96	100
Operating profit	725	(30)	(808)	(613)	(336)
Fair value change	(8)	44	-	-	-
Interest income	313	247	234	220	205
Other income and expenses	2	(1)	-	-	-
Pre-tax income	1,033	260	(574)	(393)	(131)
Income Tax	(177)	(55)	-	-	(18)
Net profit	884	583	(574)	(393)	(149)
Adj. net profit	1,262	833	(330)	(148)	103

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net income	884	583	(574)	(393)	(149)
D&A	103	113	124	137	151
Change in WC	(162)	(160)	(379)	(21)	(9)
Others	415	(134)	245	246	252
Operating CF	1,240	403	(584)	(32)	244
Capex	(118)	(124)	(130)	(137)	(143)
Others	1,123	(2,377)	-	-	-
Investing CF	1,005	(2,501)	(130)	(137)	(143)
Issuance of preference shares	-	-	-	-	-
Issuance of common shares	-	-	-	-	-
Others	265	595	-	-	2,000
Financing CF	265	595	-	-	2,000
Net change in cash	2,510	(1,503)	(715)	(168)	2,100
Cash (beg of yr)	1,113	3,294	1,791	1,076	908
Fx effect	(166)	-	-	-	-
Cash (end of yr)	3,294	1,791	1,176	908	3,008

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	1,140	1,339	1,344	1,344	1,337
Property and equipment	95	80	69	54	35
Right-of-use assets	87	395	395	395	395
Intangible assets	63	84	100	115	127
Others	895	780	780	780	780
Current assets	11,271	11,916	11,188	11,020	13,122
Cash, and stricted cash	3,294	1,791	1,076	908	3,008
Accounts and notes receivables	71	88	74	75	77
Short-term deposits	5,975	8,352	8,352	8,352	8,352
Other current asset	1,931	1,686	1,686	1,686	1,686
Current liabilities	2,634	2,745	2,352	2,332	4,324
Accounts payables	10	13	11	11	11
Deferred revenue	399	460	460	460	460
Accruals	1,707	1,845	1,454	1,434	1,426
Others	517	427	427	427	2,427
Non-current liabilities	249	169	169	169	2,169
Lease liabilities	58	45	45	45	45
Deferred revenue	178	119	119	119	119
Deferred tax liabilities	13	5	5	5	5
Shareholders' equity	9,777	10,510	10,180	10,033	10,136

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Live broadcasting	94.5	89.7	88.8	89.6	90.4
Others	5.5	10.3	11.2	10.4	9.6
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	30.3	4.0	(15.6)	0.5	2.6
Gross profit	53.0	(29.4)	(41.0)	16.3	25.3
EBIT	177.4	(104.2)	2578.6	(24.1)	(45.2)
Adj. net profit	68.2	(34.0)	(139.6)	(55.2)	(169.5)
P&L ratios (%)					
Operating margin	6.6	(0.3)	(8.4)	(6.4)	(3.4)
Pre-tax margin	9.5	2.3	(6.0)	(4.1)	(1.3)
Adj. net margin	11.6	7.3	(3.4)	(1.5)	1.0
Effective tax rate	(17.1)	(21.3)	0.0	0.0	13.8
Returns (%)					
ROE	12.9	7.9	(3.2)	(1.5)	1.0
ROA	10.2	6.3	(2.6)	(1.2)	0.7
Per share					
EPS (RMB)	5.3	3.4	(1.3)	(0.6)	0.4
DPS (RMB)	-	-	-	-	-
BVPS (RMB)	41.0	43.5	41.4	40.2	39.9

Source: Company data, CMBIGM estimates

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