

JOYY Inc. (YY US)

FY21E guidance intact despite soft 2Q21E

YY delivered mixed 1Q21 results, with rev +88% YoY. Non-GAAP net loss slightly missed. 2Q21E rev guidance missed 4%. Market concern lies on soft guidance, overseas competition landscape and user trend with marketing adjustment. 2Q21E rev and MAU would see soft seasonality, but will accelerate in 2H21E, in our view. Mgmt reiterated its rev guidance on FY21E with low single-digit margin. We maintain our Bigo's financial forecast unchanged, but lowered SOTP-based TP to US\$132 for lower subsidiary valuation.

- **Mixed 1Q21 with soft guidance.** 1Q21 rev grew 88% YoY, 6% above consensus. Non-GAAP net loss was US\$24mn (vs. consensus at US\$12mn), with margin at -3.7%. 2Q21E rev guidance came in at +36% to 40% YoY (+0% to 3% QoQ), midpoint 4% below consensus, mainly on Ramadan (齋月) and traffic normalization. JOYY announced dividend of US\$0.51/ADS for 1Q21, suggesting 2% yield. It also authorized to extend its existing share repurchase for US\$300mn of shares between Aug 2019 and Aug 2021.
- **Looking beyond 2Q21 seasonality.** Bigo rev +92% YoY, and its non-GAAP net income turned positive in 1Q21 to US\$9.5mn. Bigo Live rev +106.2% YoY, in which Europe +228% YoY, East Pacific +147.5%, Mid-East +46% YoY. Looking ahead, Bigo Live would enhance its sociality & interactions. We expect its 2Q21E Bigo rev to +38% YoY, and accelerate in 2H21E. 2Q21E GPM would see 2-3ppts QoQ decline for higher staff benefit, but OPM would be stable with S&M -3ppts QoQ. Mgmt reiterated its rev guidance on FY21E with low single-digit margin.
- **Strategically disciplined marketing in FY21E.** Mgmt stated that Bigo would adjust its marketing strategy to be more moderate & ROI-driven (S&M/Rev ~15%), and focus more on content enhancement. This strategy adjustment would pose short-term user uncertainty on Likee, while Bigo Live would remain intact. MAU would see volatility in 2Q21 but pick up in 3Q21E. Mgmt expect limited impact from Kuaishou competition, given their geographic difference (Kuaishou eyes on Latin America, SEA, vs. Likee on Mid-East) and key overlap in only Indonesia. We expect Likee to contribute 6% of total rev in FY21E thanks to livestreaming monetization.
- **Maintain BUY.** We maintain our forecast unchanged, but lowered TP to US\$132 for subsidiary valuation. Valuation is attractive (2.1x FY21E P/S), given its high growth potential in overseas TAM.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (US\$ mn)	3,712	3,336	2,963	3,859	4,763
YoY growth (%)	62.2	(9.8)	NA	30.2	23.4
Net income (RMB mn)	628	217	7	126	297
Adj. EPS (RMB)	4.18	2.36	0.09	1.51	3.50
YoY growth (%)	(41.6)	(43.4)	NA	1587.7	131.9
P/E (x)	18.4	32.6	860.3	51.0	22.0
P/S (x)	3.1	2.1	2.1	1.7	1.4
Yield (%)	0.0	2.0	2.0	0.0	0.0
ROE (%)	11.1	2.8	0.1	1.5	3.4
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	US\$132.0
(Previous TP	US\$136.0)
Up/Downside	+71.4%
Current Price	US\$77.0

China Internet Sector

Sophie Huang
 (852) 3900 0889
 sophiehuang@cmbi.com.hk

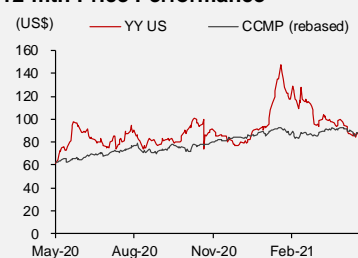
Miriam Lu
 (852) 3761 8728
 miriamlu@cmbi.com.hk

Stock Data	
Mkt Cap (US\$ mn)	6,644
Avg 3 mths t/o (US\$ mn)	119.71
52w High/Low (US\$)	148.9/ 59.2
Total Issued Shares (mn)	62
Source: Bloomberg	

Shareholding Structure	
Lei Jun	28.77%
Morgan Stanley	7.99%
FMR LLC	7.24%
Source: Bloomberg	

Share Performance		
	Absolute	Relative
1-mth	-14.6%	-12.1%
3-mth	-27.9%	-30.8%
6-mth	-6.5%	-17.7%
Source: Bloomberg		

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

1. Bigo's momentum to continue – 30 Mar 2021
2. All in Bigo with YY Live sale – 18 Nov 2020
3. All round beat with higher Bigo guidance – 14 Aug 2020

Figure 1: 1Q21 financial review

US\$ mn	1Q20	4Q20	1Q21	QoQ	YoY	Consensus	Diff %
Revenue	342	568	643	13.2%	88.1%	603	7%
Operating profit	(114)	(84)	(73)	NA	NA	(48)	NA
Net profit	(65)	(121)	(90)	NA	NA	(57)	NA
Adj. net profit	(65)	(22)	(24)	NA	NA	(12)	NA
Adj. EPS (US\$)	(0.81)	(0.28)	(0.30)	NA	NA	(0.09)	NA
Margin (%)							
Gross margin	26.6%	29.3%	31.1%			30.7%	
Operating margin	-33.3%	-14.7%	-11.4%			-8.0%	
Adj. net margin	-18.9%	-3.9%	-3.7%			-2.0%	
Growth (%)							
Revenue (YoY)	NA	71.4%	88.1%			76.2%	
Revenue (QoQ)	3.1%	NA	13.2%			6.0%	
Operating profit	NA	NA	NA			NA	
Adj. net profit	NA	NA	NA			NA	

Source: Company data, Bloomberg, CMBIS estimates

Figure 2: Revenue breakdown

US\$ mn	4Q19	1Q20	3Q20	4Q20	1Q21	QoQ	YoY
Total revenue	332	342	576	568	643	13.2%	88.1%
by segment							
Live broadcasting	289	314	551	540	614	13.8%	95.6%
Others	42	28	25	28	29	1.6%	3.6%
by platform							
Bigo	281	302	528	509	581	14.1%	92.5%
All other	51	40	48	59	62	4.8%	54.7%

Source: Company data

Figure 3: SOTP valuation

SOTP	Metrics		Multiple	Valuation	
(Rmb mn)	Rev	Net profit		Shareholding	Valuation
YY Live	Based on transaction valuation of US\$3.6bn			100%	23,549
Huya	Based on mkt cap			31%	7,329
BIGO	FY21E	19,251	NA	3.0x P/S	57,753
Total					88,631
Net cash					11,955
Holding discount					20%
Equity Value (Rmb mn)					80,469
Target Price (US\$)					132

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (US\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	3,712	3,336	2,963	3,859	4,763
Live broadcasting	3,488	3,183	2,555	3,321	4,084
Others	225	152	408	538	679
COGS	(2,489)	(2,221)	(2,074)	(2,641)	(3,174)
Gross profit	1,223	1,115	889	1,219	1,590
S&M	(543)	(579)	(699)	(854)	(980)
Admin. Exp.	(216)	(176)	(168)	(177)	(191)
R&D	(368)	(364)	(360)	(401)	(447)
Others	59	32	9	10	10
Operating profit	155	28	(329)	(203)	(17)
Financial income	106	101	6	7	12
Other income	349	335	-	-	0
Pre-tax Income	611	464	(322)	(196)	(5)
Income Tax	(79)	(80)	64	39	1
MI	(37)	(7)	(1)	(1)	(0)
Share of equity inv	6	(8)	-	-	-
Net profit	490	1,396	(257)	(156)	(4)
Adj. net profit	628	217	7	126	297

Cash flow summary

YE 31 Dec (US\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income	490	55	(258)	(157)	(4)
D&A	40	48	142	142	142
Change in WC	122	424	99	88	75
Others	3	(209)	150	168	187
Operating CF	655	317	134	241	401
Capex	(105)	(60)	(142)	(142)	(142)
Associates	-	-	-	-	-
Others	(196)	256	-	-	-
Investing CF	(301)	196	(142)	(142)	(142)
Equity raised	1,585	-	-	-	-
Change of Debts	-	-	-	-	-
Others	-	-	-	-	-
Financing CF	1,585	-	-	-	-
Net change in cash	(306)	513	(9)	99	258
Cash (beg of yr)	871	564	1,750	1,741	1,840
FX	-	-	-	-	-
Cash (end of yr)	566	1,077	1,741	1,840	2,098

Balance sheet

YE 31 Dec (US\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	3,398	3,186	4,212	4,212	4,212
Fixed asset	327	349	403	403	403
Long-term investments	343	119	20	20	20
Intangible assets	462	460	346	346	346
Others	2,266	2,258	3,443	3,443	3,443
Current assets	4,180	4,673	4,022	4,229	4,597
Cash	565	1,077	1,741	1,840	2,098
Deposit over 3 months	2,434	2,520	32	32	32
Account receivable	252	108	209	272	336
Others	929	968	2,040	2,085	2,131
Current liabilities	1,109	1,242	1,160	1,356	1,541
Borrowings	17	-	113	113	113
Account payable	18	22	30	38	46
Tax payable	66	65	61	61	61
Accrued expenses	678	810	689	878	1,055
Other	330	345	266	266	266
Non-current liabilities	826	822	841	841	841
Convertible debt	727	725	783	783	783
Other long-term liabilities	99	97	58	58	58
MI	777	791	4	3	3
Total net assets	5,644	5,795	6,233	6,244	6,427
Shareholders' equity	4,867	5,004	6,229	6,240	6,423

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Live broadcasting	93.9	95.4	86.2	86.1	85.7
Others	6.1	4.6	13.8	13.9	14.3
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	62.2	(9.8)	NA	30.2	23.4
Gross profit	46.7	(8.5)	NA	37.1	30.4
EBIT	(59.5)	(82.1)	NA	(38.1)	(91.6)
Net profit	105.8	(65.3)	NA	1621.5	136.5
P&L ratios (%)					
Operating margin	4.2	0.8	(11.1)	(5.3)	(0.4)
Pre-tax margin	16.5	13.9	(10.9)	(5.1)	(0.1)
Adj. net margin	16.9	6.5	0.2	3.3	6.2
Effective tax rate	(13.0)	(19.0)	(20.0)	(20.0)	(20.0)
Returns (%)					
ROE	11.1	2.8	0.1	1.5	3.4
ROA	8.7	4.3	0.1	2.0	4.6
Per share					
EPS (RMB)	4.2	2.4	0.1	1.5	3.5
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	92.8	98.2	100.9	101.4	103.7

Source: Company data, CMBIS estimates

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIS Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIS

OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

For recipients of this document in the United States

CMBIS is not a registered broker-dealer in the United States. As a result, CMBIS is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.