

# JOYY Inc. (YY US)

## More bullish on Bigo's overseas expansion

YY delivered solid 1Q20 results today, with revenue/adj. net profit +50% YoY/-34% YoY, 5%/11% higher than consensus. 2Q20 rev guidance was in line with our estimate. We turn more positive on its overseas expansion, and lifted Bigo's revenue to grow 65% YoY (vs. previous 60%), with net loss narrowed to US\$100mn (vs. previous US\$150mn) in FY20E. Bigo's strong momentum and narrowing loss could help it re-rate, coupled with Likee's initial monetization. We raised its adj. net profit by 5%/1% in FY20/21E, with higher TP of US\$81.

- **1Q20 beat.** 1Q20 revenue grew 50% YoY, 5% above consensus. Adj. net profit declined 34% YoY, 11% above consensus. Mgmt. guided solid 2Q20E revenue at Rmb5.00bn~Rmb5.15bn (midpoint +18.5% YoY, excluding Huya's revenue), in line with our estimate, but 1% below consensus. We view this result and guidance as positive, for Bigo's strong momentum.
- **More bullish on Bigo's overseas expansion.** We turn more confident on Bigo's overseas expansion, and mgmt. guided 65% YoY revenue growth (pro-forma) in FY20E (vs. previous +60% YoY), mainly on: 1) Overseas user growth to benefit from global COVID-19, with more time spent and healthy retention; and 2) Bigo performed well in developed countries, with 34% revenue contribution from these regions in 1Q20 (vs. 31% in 4Q19). We also revised Bigo's net loss to US\$100mn from US\$150mn in FY20E, with effective margin improvement. Mgmt. stated that overseas hosts rev sharing ratio was lower than that in China, with less agencies. Bigo Live's net margin has reached 25%, and still room to improve.
- **ROI-driven strategy for disciplined expenses.** We expect YY Core's revenue to be flat YoY in 2Q20E, and see positive growth in 2H20E. We forecast YY Core's non-GAAP OPM at 20% in FY20E (vs. previous 19%). for effective cost control. Given macro uncertainty under epidemic, YY would be disciplined on its investment and expenses, and thus we adjusted JOYY's non-GAAP OPM at 9.5% in FY20E (vs. previous 6.5%).
- **Maintain BUY.** We raised its adj. net profit by 5%/1% in FY20/21E, and lifted our SOTP-based TP from US\$74 to **US\$81** (16.7x FY21E P/E). We think market concern on COVID-19 and competition has been further eased by this solid result and guidance. Healthy user metrics trend, overseas acceleration, and margin improvement could be further catalysts.

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	15,764	25,576	23,753	25,032	29,342
YoY growth (%)	36.0	62.2	-7.1	5.4	17.2
Net income (RMB mn)	3,196	4,327	2,223	3,128	4,578
Adj. EPS (RMB)	49.25	28.79	24.26	34.01	49.56
YoY growth (%)	11.0	(41.6)	(15.7)	40.2	45.7
Consensus EPS (RMB)	NA	NA	24.87	37.58	49.00
P/E (x)	9.1	15.6	18.5	13.2	9.0
P/B (x)	1.7	1.0	1.1	1.0	1.0
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	9.9	11.1	2.9	6.0	6.9
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

### BUY (Maintain)

Target Price	US\$81.0
(Previous TP	US\$74.0)
Up/Downside	+27.6%
Current Price	US\$63.5

### China Internet Sector

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### Stock Data

Mkt Cap (US\$ mn)	4,961
Avg 3 mths t/o (US\$ mn)	61.0
52w High/Low (US\$)	80/41
Total Issued Shares (mn)	62.0

Source: Bloomberg

### Shareholding Structure

Lei Jun	28.5%
Morgan Stanley	5.7%
Capital Group	5.2%

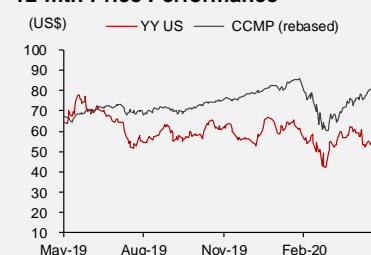
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	6.2%	-3.0%
3-mth	7.4%	11.7%
6-mth	7.5%	-2.2%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: PwC

### Related Reports

1. Expecting solid 1Q20E on track – 7 May 2020
2. Solid 4Q19; Eyes on overseas momentum – 18 Mar 2020
3. Overseas expansion to bring upside – 9 Mar 2020
4. Tour takeaways: Eyes on overseas expansion – 6 Dec 2019
5. Solid 3Q19 with stepping-up investment – 14 Nov 2019

**Figure 1: 1Q20 financial review**

RMB mn	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	QoQ	YoY	Consensus	Diff %	CMBI	Diff %
Revenue	3,249	3,773	4,100	4,641	4,781	6,295	6,882	7,618	7,149	-6.2%	49.6%	6,827	5%	6,840	5%
Operating profit	596	714	611	719	474	72	160	362	186	-48.5%	-60.6%	(80)	NA	(61)	NA
Net profit	444	(137)	651	684	3,104	107	178	156	370	137.2%	-88.1%	(39)	NA	(129)	NA
Adj. net profit	700	810	787	847	654	520	693	601	429	-28.6%	-34.4%	386	11%	379	13%
Adj. EPS (RMB)	10.96	12.69	12.07	13.03	9.32	5.14	6.42	6.70	4.80	-28.4%	-48.5%	4.09	17%	4.14	16%
<b>Margin (%)</b>															
Gross margin	38.0%	38.0%	38.0%	35.1%	33.9%	33.7%	31.5%	33.0%	30.8%			30.6%		30.5%	
Operating margin	18.4%	18.9%	14.9%	15.5%	9.9%	1.1%	2.3%	4.8%	2.6%			-1.2%		-0.9%	
Adj. net margin	21.5%	21.5%	19.2%	18.2%	13.7%	8.3%	10.1%	7.9%	6.0%			5.7%		5.5%	
<b>Growth (%)</b>															
Revenue (YoY)	30.8%	44.6%	32.6%	28.0%	47.1%	66.8%	67.8%	64.2%	49.6%			42.8%		43.1%	
Revenue (QoQ)	5.1%	16.1%	8.7%	13.2%	3.0%	31.7%	9.3%	10.7%	-6.2%			-10.4%		-10.2%	
Operating profit	-4.0%	19.1%	-7.6%	-12.5%	-20.6%	-89.9%	-73.8%	-49.6%	-60.6%			-116.8%		-112.9%	
Adj. net profit	16.9%	35.7%	23.1%	-10.7%	-6.6%	-35.8%	-11.9%	-29.1%	-34.4%			-40.9%		-42.1%	

Source: Company data, Bloomberg, CMBIS estimates

**Figure 2: Revenue breakdown**

RMB mn	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	QoQ	YoY
<b>Total revenue</b>	<b>3,249</b>	<b>3,773</b>	<b>4,100</b>	<b>4,641</b>	<b>4,781</b>	<b>6,295</b>	<b>6,882</b>	<b>7,618</b>	<b>7,149</b>	<b>-6.2%</b>	<b>49.6%</b>
<b>by segment</b>											
Live broadcasting	2,032	3,560	3,895	4,391	4,485	5,923	6,474	7,147	6,756	-5.5%	50.6%
Others	258	32	206	249	296	372	408	472	393	-16.6%	33.0%
<b>by platform</b>											
YY Live	2,407	2,735	2,824	3,136	2,753	3,054	3,080	3,346	2,631	-21.4%	-4.5%
Huya	844	1,038	1,277	1,505	1,631	2,010	2,265	2,467	2,412	-2.3%	47.8%
Bigo					396	1,231	1,537	1,804	2,107	16.8%	432.3%

Source: Company data

**Figure 3: SOTP valuation**

Figure 3: SOTP Valuation

SOTP		Metrics		Multiple		Valuation
(Rmb mn)	Rev	Net profit			Shareholding	Valuation
YY Live	FY20	12,137	2,003	8x PE	100%	16,021
Huya	Based on Mkt cap				31%	7,812
BIGO	FY20	9,225	NA	3.0x PS	100%	27,676
<b>Total</b>						<b>51,508</b>
Net cash						12,574
Holding discount						20%
<b>Equity Value (Rmb mn)</b>						<b>51,266</b>
<b>Target Price (US\$)</b>						<b>81</b>

Source: Company data, CMBIS estimates

**Figure 4: CMBIS estimates vs consensus**

RMB mn, Dec-YE	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	23,753	25,032	29,342	27,212	30,431	35,724	-12.7%	-17.7%	-17.9%
Gross Profit	8,714	9,828	12,100	9,221	10,863	12,712	-5.5%	-9.5%	-4.8%
Operating Profit	236	950	2,414	777	1,810	2,765	-69.6%	-47.5%	-12.7%
Net profit	2,223	3,128	4,578	2,276	3,434	4,467	-2.3%	-8.9%	2.5%
Adj. EPS (RMB)	24.26	34.01	49.56	24.87	37.58	49.00	-2.5%	-9.5%	1.1%
Gross Margin	36.7%	39.3%	41.2%	33.9%	35.7%	35.6%	+2.8ppts	+3.6ppts	+5.7ppts
Operating Margin	1.0%	3.8%	8.2%	2.9%	5.9%	7.7%	-1.9ppts	-2.2ppts	+0.5ppts
Net Margin	9.4%	12.5%	15.6%	8.4%	11.3%	12.5%	+1.0ppts	+1.2ppts	+3.1ppts

Source: CMBIS estimates, Bloomberg

**Figure 5: Earnings revision**

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	23,753	25,032	29,342	23,672	25,032	29,342	0.3%	0.0%	0.0%
Gross Profit	8,714	9,828	12,100	8,591	9,912	12,196	1.4%	-0.8%	-0.8%
Operating Profit	236	950	2,414	110	927	2,405	115.4%	2.6%	0.4%
Net profit	2,223	3,128	4,578	2,113	3,108	4,570	5.2%	0.7%	0.2%
Adj. EPS (RMB)	24.26	34.01	49.56	23.05	33.79	49.48	5.2%	0.7%	0.2%
Gross Margin	36.7%	39.3%	41.2%	36.3%	39.6%	41.6%	+0.4ppts	-0.3ppts	-0.3ppts
Operating Margin	1.0%	3.8%	8.2%	0.5%	3.7%	8.2%	+0.5ppts	+0.1ppts	+0.0ppts
Net Margin	9.4%	12.5%	15.6%	8.9%	12.4%	15.6%	+0.4ppts	+0.1ppts	+0.0ppts

Source: Company data, CMBIS estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Revenue</b>	15,764	25,576	23,753	25,032	29,342
Live broadcasting	14,878	24,028	22,439	23,454	27,114
Others	886	1,548	1,314	1,578	2,227
<b>COGS</b>	(10,017)	(17,148)	(15,039)	(15,204)	(17,242)
<b>Gross profit</b>	5,746	8,428	8,714	9,828	12,100
S&M	(1,149)	(3,740)	(4,659)	(4,893)	(5,316)
Admin. Exp.	(883)	(1,489)	(1,469)	(1,483)	(1,586)
R&D	(1,192)	(2,535)	(2,686)	(2,827)	(3,110)
Others	118	405	336	325	325
<b>Operating profit</b>	2,640	1,068	236	950	2,414
Financial income	486	734	698	607	607
Other income	(590)	2,407	(554)	(554)	(554)
<b>Pre-tax Income</b>	2,535	4,208	380	1,003	2,466
Income Tax	(478)	(547)	(269)	(355)	(581)
MI	20	(255)	(117)	-	-
Share of equity inv	59	39	300	605	774
<b>Net profit</b>	1,642	3,379	294	1,253	2,659
<b>Adj. net profit</b>	3,196	4,327	2,223	3,128	4,578

### Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Net income</b>	1,642	3,379	411	1,253	2,659
D&A	241	273	330	349	366
Change in WC	746	839	2,928	679	240
Others	(206)	18	(1,810)	(359)	204
<b>Operating CF</b>	2,423	4,510	1,860	1,922	3,470
Capex	(447)	(725)	(417)	(429)	(442)
Associates	-	-	-	-	-
Others	(4,293)	(1,352)	1,772	(69)	(69)
<b>Investing CF</b>	(4,739)	(2,076)	1,355	(498)	(511)
Equity raised	5,846	10,923	-	-	-
Change of Debts	-	-	-	-	-
Others	-	-	-	-	-
<b>Financing CF</b>	5,846	10,923	-	-	-
<b>Net change in cash</b>	2,387	(2,106)	3,215	1,424	2,958
Cash (beg of yr)	3,617	6,004	3,898	7,113	8,537
FX	-	-	-	-	-
<b>Cash (end of yr)</b>	6,004	3,898	7,113	8,537	11,496

### Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Non-current assets</b>	8,278	23,410	22,024	22,779	23,699
Fixed asset	1,296	2,256	2,412	2,562	2,707
Long-term investments	4,592	2,363	822	1,427	2,201
Intangible assets	75	3,180	3,180	3,180	3,180
Others	2,316	15,610	15,610	15,610	15,610
<b>Current assets</b>	17,483	28,800	31,891	33,402	36,652
Cash	6,004	3,894	7,113	8,537	11,496
Deposit over 3 months	7,327	16,771	17,424	17,424	17,424
Account receivable	1,217	1,733	708	746	874
Others	2,934	6,403	6,646	6,695	6,859
<b>Current liabilities</b>	3,846	7,638	8,211	8,526	9,267
Borrowings	-	116	-	-	-
Account payable	115	125	141	148	161
Tax payable	236	452	452	452	452
Accrued expenses	2,414	4,673	5,305	5,539	6,025
Other	1,082	2,273	2,313	2,388	2,630
<b>Non-current liabilities</b>	119	5,688	5,671	5,683	5,723
Convertible debt	-	5,009	5,009	5,009	5,009
Other long-term liabilities	119	679	662	674	715
MI	2,857	5,352	5,469	5,469	5,469
<b>Total net assets</b>	21,796	38,884	40,034	41,973	45,361
<b>Shareholders' equity</b>	18,939	33,532	34,565	36,504	39,891

### Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Sales mix (%)</b>					
Live broadcasting	94.4	93.9	94.5	93.7	92.4
Others	5.6	6.1	5.5	6.3	7.6
<b>Total</b>	100.0	100.0	100.0	100.0	100.0
<b>Growth rate (%)</b>					
Revenue	36.0	62.2	(7.1)	5.4	17.2
Gross profit	25.8	46.7	3.4	12.8	23.1
EBIT	(2.2)	(59.5)	(77.9)	302.5	154.0
Net profit	(34.1)	105.8	(48.6)	40.7	46.3
<b>P&amp;L ratios (%)</b>					
Operating margin	16.7	4.2	1.0	3.8	8.2
Pre-tax margin	16.1	16.5	1.6	4.0	8.4
Adj. net margin	20.3	16.9	9.4	12.5	15.6
Effective tax rate	(18.8)	(13.0)	(19.0)	(19.0)	(19.0)
<b>Returns (%)</b>					
ROE	9.9	11.1	2.9	6.0	6.9
ROA	8.2	8.7	2.1	4.3	4.9
<b>Per share</b>					
EPS (RMB)	49.3	28.8	24.3	34.0	49.6
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	358.4	639.5	566.7	601.8	645.1

Source: Company data, CMBIS estimates

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