

HUYA (HUYA US)

Shift to game monetization in transition year

Huya delivered mixed 2Q23 results, with soft topline but upbeat margin. Looking ahead, Huya will step into a transition period with three-year strategic change. Given livestreaming headwinds (regulation tightening, competition, macro, etc.), Huya plans to reallocate resources to explore new opportunities – game biz (expected to contribute 30% of total rev in FY25E). As the largest game streaming platform, we think Huya can leverage its eSports community, Tencent cooperation, vibrant content and huge hardcore gamer base to diversify its monetization, especially in game distribution and in-game sales. After 2H23E decline (forecasting rev -33% YoY), we expect game biz to contribute meaningful rev from FY24E, to offset soft livestreaming and further boost FY25E momentum. We cut FY23-25E rev by 18%-24%, while trimmed earnings in FY24/25E by 30%/2%. Our DCF-based TP was adjusted to US\$6.3 (implying 1.7x FY23E P/S).

- **Mixed 2Q23 with upbeat margin but soft topline.** 2Q23 rev declined 20% YoY, 7% below consensus, in which livestreaming -20% YoY, primarily due to regulatory headwinds, soft macro and traffic shift to offline post opening. On the flip side, Huya achieved a GPM of 15%, surpassing market consensus of 11.4%, mainly on lower-than-expected rev-sharing fees and bandwidth costs associated with the soft topline. Coupled with better GPM and cost control, adj. NPM beat consensus (1.9%) with 6.3%. Huya announced share repurchase program of up to US\$100mn over next 12 months.
- **Transition year to explore new opportunities.** FY23E will be a transitional period for Huya after mgmt. change. Given livestreaming headwinds, Huya plans to actively reallocate resources to the game business (high GPM), which is expected to account for 30% of the total revenue by FY25E. As such, temporary adjustments would dampen 2H23E & FY24E momentum. We expect 2H23E rev to decline 33% YoY, with decreasing paying users amid lower livestreaming incentives. Livestreaming would see another 14% YoY decline in FY24E for high base in 1H23, before stabilizing in FY25E. Huya will explore new monetization opportunities (e.g. game distribution, in-game sales, game ads, etc.) to offset soft livestreaming and further unlock game monetization, by leveraging Tencent eSports ecosystem. Bottom line would be intact in this transition year, as it will scale back the budget allocated to less efficient business areas. We keep FY23E net loss earnings and breakeven target in FY24E unchanged.
- **Maintain BUY.** To reflect biz adjustment, we cut FY23-25E rev by 18%-24%, while trimmed bottom line in FY24/25E by 30%/2%. Our DCF-based TP was adjusted to US\$6.3.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY 25E
Revenue (RMB mn)	11,351	9,220	6,682	6,615	7,393
YoY growth (%)	4.0	(18.8)	(27.5)	(1.0)	11.8
Adj. net income (RMB mn)	454	(282)	(92)	31	173
Adj. EPS (RMB)	1.88	(1.2)	(0.4)	0.13	0.68
YoY growth (%)	(64.5)	NA	NA	NA	454.4
Consensus EPS (RMB)	NA	NA	(0.2)	0.4	0.9
P/E (x)	10.2	NA	NA	152.4	27.9
P/S (x)	0.40	0.50	0.69	0.69	0.62
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	4.3	(2.6)	(0.9)	0.3	1.6
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **US\$6.3**
 (Previous TP **US\$6.9**)
 Up/Downside **+139%**
 Current Price **US\$2.7**

China Entertainment Sector

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Stock Data

Mkt Cap (US\$ mn)	665
Avg 3 mths t/o (US\$ mn)	5.8
52w High/Low (US\$)	6.50/1.64
Total Issued Shares (mn)	90

Source: Bloomberg

Shareholding Structure

Teachers Insurance & Annuity	10.82%
Asso of America	
Morgan Stanley	9.09%
Goldman Sachs	7.94%

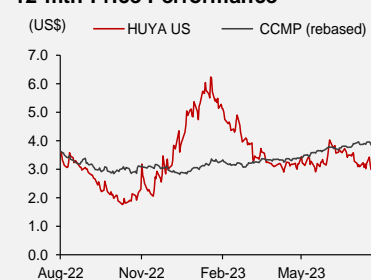
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-22.6%	-19.8%
3-mth	-13.2%	-21.8%
6-mth	-47.5%	-54.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Figure 1: 2Q23 financial review

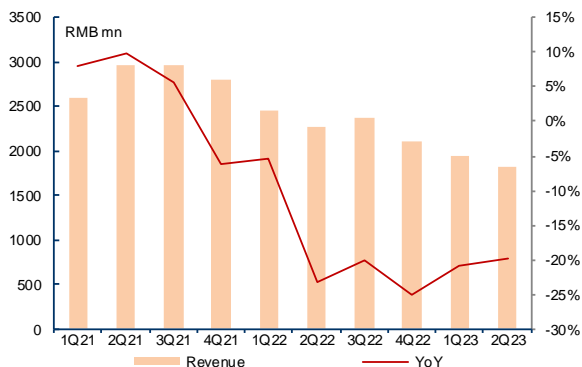
RMB mn	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	QoQ	YoY	Consensus	Diff %
Revenue	2,962	2,976	2,809	2,465	2,275	2,379	2,102	1,949	1,821	-7%	-20%	1,965	-7%
Gross profit	581	504	1	334	219	342	(284)	256	273	6%	25%	223	22%
Net profit	186	524	(313)	(3)	(19)	60	(524)	45	23	-48%	NA	(64)	NA
Adj. net profit	250	180	(241.7)	47	6	106	(440)	86	115	35%	1860%	37	212%
Adj. EPS (RMB)	1.04	0.75	(1.00)	0.19	0.02	0.44	(1.81)	0.35	0.47	34%	1817%	0.11	320%
Margin (%)													
Gross margin	19.6%	16.9%	0.0%	13.5%	9.6%	14.4%	-13.5%	13.2%	15.0%			11.4%	
Operating margin	8.4%	5.2%	-13.8%	-0.1%	-2.5%	2.4%	-26.1%	-0.5%	-0.1%			-3.3%	
Adj. net margin	8.4%	6.0%	-8.6%	1.9%	0.3%	4.5%	-20.9%	4.4%	6.3%			1.9%	
Growth (%)													
Revenue (YoY)	9.8%	5.7%	-6.1%	-5.4%	-23.2%	-20.1%	-25.2%	-20.9%	-19.9%			-20.3%	
Revenue (QoQ)	13.7%	0.4%	-5.6%	-12.3%	-7.7%	4.5%	-11.6%	-7.3%	-6.6%			-6.5%	
Gross profit	1.1%	-18.8%	-99.8%	-35.1%	-62.3%	-32.1%	NA	-23.1%	24.6%			-33.1%	
Adj. net profit	-24.4%	-50.2%	NA	-82.5%	-97.7%	-41.1%	NA	83.5%	1860.3%			NA	

Source: Company data, Bloomberg

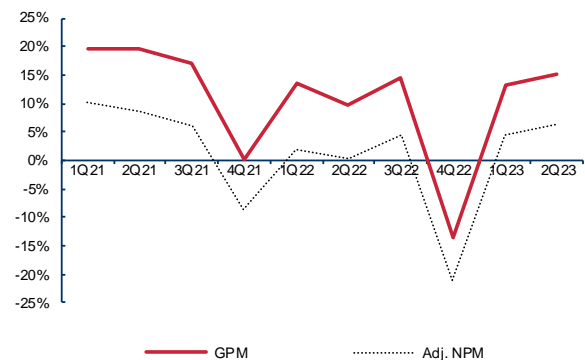
Figure 2: 2Q23 revenue breakdown

	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	QoQ	YoY
Revenue (RMB mn)	2,605	2,962	2,976	2,809	2,465	2,275	2,379	2,102	1,949	1,821	-6.6%	-19.9%
Live broadcasting	2,392	2,579	2,602	2,613	2,152	2,052	2,017	1,975	1,860	1,716	-7.8%	-16.4%
Others	213	383	374	196	313	223	361	127	89	106	18.4%	-52.6%

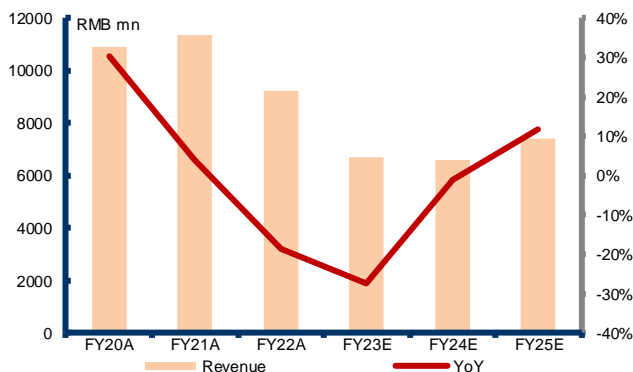
Source: Company data

Figure 3: Quarterly rev estimates

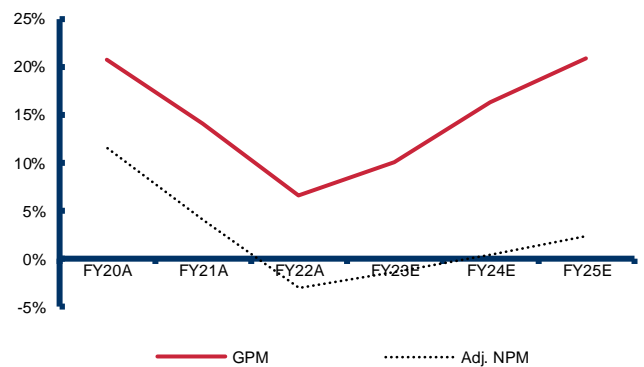
Source: Company data, CMBIGM estimates

Figure 4: Quarterly margin estimates

Source: Company data, CMBIGM estimates

Figure 5: Annual rev estimates

Source: Company data, CMBIGM estimates

Figure 6: Annual margin estimates

Source: Company data, CMBIGM estimates

To reflect soft livestreaming in transition period, we cut FY23-25E rev by 18%-24%, while trimmed bottom line in FY24/25E by 30%/2%. Our DCF-based TP was adjusted to US\$6.3, implying 1.7x FY23E P/S, still below industry average.

Figure 7: CMBIGM estimates vs consensus

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	6,682	6,615	7,393	8,271	8,690	9,077	-19.2%	-23.9%	-18.5%
Gross profit	670	1,079	1,545	799	961	1,167	-16.1%	12.4%	32.4%
Operating profit	(312)	(167)	19	(395)	(324)	(86)	NA	NA	NA
Adj. net profit	(92)	31	173	(38)	81	212	NA	-61.6%	-18.2%
EPS (RMB)	(0.38)	0.13	0.68	(0.23)	0.38	0.89	NA	-67.3%	-23.1%
Gross margin	10.0%	16.3%	20.9%	9.7%	11.1%	12.9%	+0.4ppts	+5.3ppts	+8.0ppts
Operating margin	-4.7%	-2.5%	0.3%	-4.8%	-3.7%	-0.9%	+0.1ppts	+1.2ppts	+1.2ppts
Net margin	-1.4%	0.5%	2.3%	-0.5%	0.9%	2.3%	-0.9ppts	-0.5ppts	+0.0ppts

Source: Company data, Bloomberg, CMBIGM estimates

Figure 8: Earnings revision

RMB mn, Dec-YE	CMBIGM			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	6,682	6,615	7,393	8,327	8,722	9,051	-19.8%	-24.2%	-18.3%
Gross profit	670	1,079	1,545	809	954	1,145	-17.2%	13.1%	34.9%
Operating profit	(312)	(167)	19	(311)	(152)	24	NA	NA	-20.9%
Adj. net profit	(92)	31	173	(91)	45	178	NA	-29.8%	-2.4%
EPS (RMB)	(0.38)	0.13	0.68	(0.37)	0.18	0.70	NA	-29.8%	-2.4%
Gross margin	10.0%	16.3%	20.9%	9.7%	10.9%	12.7%	+0.3ppts	+5.4ppts	+8.2ppts
Operating margin	-4.7%	-2.5%	0.3%	-3.7%	-1.7%	0.3%	-0.9ppts	-0.8ppts	-0.0ppts
Net margin	-1.4%	0.5%	2.3%	-1.1%	0.5%	2.0%	-0.3ppts	-0.0ppts	+0.4ppts

Source: Company data, CMBIGM estimates

Figure 9: DCF valuation

DCF valuation (RMB mn)										
	2023E	2024E	2025E	2026E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	(312)	(167)	19	134	214	253	289	322	352	378
Tax	0	(6)	(31)	(20)	(32)	(38)	(43)	(48)	(53)	(57)
D&A	137	151	166	182	200	220	242	267	293	323
Working capital	(357)	(52)	91	40	37	42	55	58	52	47
CAPEX	(63)	(66)	(69)	(73)	(77)	(80)	(84)	(89)	(93)	(98)
FCF	(595)	(141)	176	263	343	397	459	510	552	593
FCF Growth	NA	NA	NA	49%	30%	16%	15%	11%	8%	8%
Terminal Value										5,432
PV (FCF+ Terminal Value)	(595)	(123)	135	176	201	204	206	201	190	1,817

Assumptions	
WACC	14.2%
Tax rate	20.0%
Risk free rate	3.6%
Cost of debt	0.0%
Beta	1.30
Market risk return	11.8%
Terminal growth rate	3.0%

Equity Value	
PV	2,412
minus: Net cash	(9,042)
minus: Minority Interest	0
Equity Value	11,455
Shares (mn)	248
Target Price (US\$) based on DCF	6.3

WACC						
Growth		12.2%	13.2%	14.2%	15.2%	16.2%
	1.5%	6.6	6.4	6.2	6.1	5.9
	2.0%	6.7	6.4	6.2	6.1	6.0
	2.5%	6.7	6.5	6.3	6.1	6.0
	3.0%	6.8	6.5	6.3	6.2	6.0
	3.5%	6.9	6.6	6.4	6.2	6.0
	4.0%	7.0	6.7	6.4	6.2	6.1
4.5%	7.1	6.7	6.5	6.3	6.1	

Source: Company data, CMBIGM estimates

Figure 10: Peers valuation

Company	Ticker	Mkt cap (USD mn)	Currency	Price	CMBI Rating	CMBI TP	PE			PS			FY23-25 EPS CAGR
							FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	
Huya	HUYA US	631	USD	3	BUY	6	NA	152.4	27.9	0.7	0.7	0.6	NA
Game													
Tencent	700 HK	402,029	HKD	329	BUY	455	20.0	16.9	14.9	4.7	4.2	3.8	15%
NetEase	NTES US	66,217	USD	103	BUY	123	18.2	16.8	15.3	4.5	4.1	3.7	6%
XD Inc.	2400 HK	1,016	HKD	17	NA	NA	49.8	19.9	12.2	1.7	1.4	1.2	136%
Average							19.1	17.9	14.1	3.6	3.2	2.9	11%
Livestreaming & VAS													
Momo	MOMO US	1,888	USD	10	HOLD	14	6.3	5.9	5.6	1.1	1.0	1.0	6%
YY	YY US	2,211	USD	32	BUY	46	15.6	13.2	10.8	1.0	0.9	0.8	21%
Bilibili	BILI US	6,495	USD	16	BUY	27	NA	NA	50.8	1.9	1.7	1.5	NA
Douyu	DOYU US	330	USD	1	NA	NA	55.1	39.5	21.0	0.4	0.4	0.4	103%
TME	TME US	10,623	USD	6	BUY	9	12.8	12.1	11.0	2.7	2.6	2.4	9%
Mango	300413 CH	7,977	CNY	31	NA	NA	24.2	20.5	17.8	3.6	3.2	2.9	17%
iQIYI	IQ US	5,384	USD	6	BUY	9	17.1	11.7	9.5	1.2	1.1	1.0	32%
Average							15.2	12.7	10.9	1.7	1.6	1.4	17%
Advertising													
Baidu	BIDU US	47,314	USD	135	BUY	195	14.1	12.7	11.1	2.5	2.3	2.1	6%
Weibo	WB US	3,167	USD	13	BUY	27	6.0	5.4	5.0	1.7	1.6	1.5	10%
Average							10.1	9.1	8.0	2.1	1.9	1.8	8%
Global entertainment													
Facebook	META US	776,966	USD	302	NA	NA	22.2	17.4	15.5	5.9	5.2	4.6	21%
Netflix	NFLX US	187,761	USD	424	NA	NA	34.8	27.0	21.6	5.6	4.9	4.4	27%
Snapchat	SNAP US	15,514	USD	10	NA	NA	NA	NA	44.3	3.4	3.0	2.6	NA
Average							28.5	22.2	18.6	5.0	4.4	3.9	24%
Average							17.4	15.0	12.5	2.8	2.5	2.3	15%

Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenues	11,351	9,220	6,682	6,615	7,393
Live broadcasting	10,186	8,196	6,259	5,412	5,228
Others	1,165	1,025	422	1,203	2,165
COGS	(9,751)	(8,610)	(6,012)	(5,536)	(5,849)
Gross profit	1,600	611	670	1,079	1,545
R&D	(819)	(680)	(619)	(664)	(731)
S&M	(760)	(483)	(337)	(532)	(743)
G&A	(327)	(320)	(266)	(272)	(283)
Other income	275	166	127	110	106
Operating profit	(30)	(706)	(425)	(279)	(106)
Fair value change	44	8	-	-	-
Interest income	247	298	220	205	185
Other income and expenses	(1)	(58)	-	-	-
Pre-tax Income	260	(458)	(205)	(75)	79
Income Tax	(55)	(28)	-	(6)	(31)
Net profit	583	(487)	(206)	(81)	48
Adj. net profit	454	(282)	(92)	31	173

Cash flow summary

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Net income	583	(487)	(206)	(81)	48
D&A	113	124	137	151	166
Change in WC	(160)	(312)	(357)	(52)	91
Others	(134)	149	114	113	126
Operating CF	403	(525)	(312)	130	431
Capex	(124)	(130)	(137)	(143)	(151)
Others	(2,377)	(666)	-	-	-
Investing CF	(2,501)	(796)	(137)	(143)	(151)
Issuance of preference shares	-	-	-	-	-
Issuance of common shares	-	-	-	-	-
Others	595	-	-	-	-
Financing CF	595	-	-	-	-
Net change in cash	(1,503)	(1,322)	(448)	(13)	280
Cash (beg of yr)	3,294	1,791	469	21	7
Fx effect	-	-	-	-	-
Cash (end of yr)	1,791	469	21	7	287

Balance sheet

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Non-current assets	1,339	2,693	1,620	1,613	1,597
Property and equipment	80	201	186	167	142
Right-of-use assets	395	345	345	345	345
Intangible assets	84	58	72	85	94
Others	780	2,090	1,017	1,016	1,016
Current assets	11,916	10,454	9,798	9,784	10,071
Cash, and stricted cash	1,791	655	21	7	287
Accounts and notes receivables	88	76	55	54	61
Short-term deposits	8,352	9,018	9,018	9,018	9,018
Other current asset	1,686	704	704	704	704
Current liabilities	2,745	2,304	1,926	1,873	1,971
Accounts payables	13	23	16	14	15
Deferred revenue	460	446	435	426	417
Accruals	1,845	1,592	1,232	1,190	1,295
Others	427	243	243	243	243
Non-current liabilities	169	103	103	103	103
Lease liabilities	45	9	9	9	9
Deferred revenue	119	73	73	73	73
Deferred tax liabilities	5	21	21	21	21
Shareholders' equity	10,510	10,843	10,751	10,782	10,956

Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Sales mix (%)					
Live broadcasting	89.7	88.9	93.7	81.8	70.7
Others	10.3	11.1	6.3	18.2	29.3
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	4.0	(18.8)	(27.5)	(1.0)	11.8
Gross profit	(29.4)	(61.8)	9.7	61.1	43.1
EBIT	NA	NA	NA	NA	NA
Adj. net profit	NA	NA	NA	NA	454.4
P&L ratios (%)					
Operating margin	(0.3)	(7.7)	(6.4)	(4.2)	(1.4)
Pre-tax margin	2.3	(5.0)	(3.1)	(1.1)	1.1
Adj. net margin	4.0	(3.1)	(1.4)	0.5	2.3
Effective tax rate	(21.3)	6.1	0.0	7.5	(38.8)
Returns (%)					
ROE	4.3	(2.6)	(0.9)	0.3	1.6
ROA	3.4	(2.1)	(0.8)	0.3	1.5
Per share					
EPS (RMB)	1.9	(1.2)	(0.4)	0.1	0.7
DPS (RMB)	-	-	-	-	-
BVPS (RMB)	43.5	44.9	43.8	43.2	43.2

Source: Company data, CMBIGM estimates

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SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIGM

OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
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