

JOYY Inc. (YY US)

Better margin outlook, with Bigo to bottom out

JOYY delivered upbeat 2Q23 results, with rev -8% YoY (2% above consensus) and bottom line at US\$97mn (212% above consensus). Excluding Halo biz adjustment, 3Q23E rev guidance should be largely in line. Looking ahead, we expect Bigo live to bottom out in 2H23E (forecasting rev +3%/8.5% QoQ in 3Q/4Q23E), backed by solid growth of the US and Europe, stabilization of the Middle East and campaign promotion. We turn more positive on its margin outlook ahead, forecasting adj. NPM of Group at 8.9%/9.0% in FY23/24E (vs. prior 5.8%/7.0%). We think YY would be a defensive name for its improving fundamentals, overseas exposure, attractive dividend plan & repurchase program. We lift FY23-25E earnings forecast by 21%-50%, with higher SOTP-based TP at US\$50.5.

- Upbeat 2Q23 while guidance soft on Halo biz adjustment.** Rev -8.2% YoY, 2% above consensus. Bigo -6.3% YoY, due to lower ARPU amid global macro uncertainties and US dollar appreciation, while recovery in developed countries (Korea, Japan and Europe) trended well. All others -18.4% YoY, for domestic biz adjustment. Non-GAAP NP recorded at US\$97mn (adj. NPM at 17.8% vs. 8.5% in 2Q23), 212% above consensus, mainly on better-than-expected Bigo's GPM and FX change. 3Q23E rev guidance was 2.7% below consensus, primarily due to adjustment of Halo biz.
- Expecting Bigo live to bottom out ahead.** We expect Bigo live to see sequential growth in 3Q23E (forecasting +3% QoQ), backed by solid growth of the US and Europe, stabilization of the Middle East and campaign promotion in Jul. Bigo will continuously strengthen its content and social interaction features, innovative local operations, coupled with AIGC initiatives. Likee would see rev sequential growth in 3Q22E, with user recovery in sight. As such, we forecast Bigo rev -3% YoY in FY23E, in which 4Q23E to see high-single-digit QoQ growth. For other segments, we forecast total other rev at RMB74mn in 3Q23E (-3% QoQ), due to domestic business adjustment.
- Better margin outlook.** We expect non-GAAP OPM of Bigo at 14% in 3Q23E, in which GPM slightly declined 1ppts QoQ (at 38%) for event promotion. We forecast Bigo full-year OPM stable YoY, despite heavier S&M in 2H23E. Net loss in all other segment would reach US\$101mn in FY23E, and then continue to narrow in FY24/25E. We are more positive on its margin outlook ahead, forecasting adj. NPM of Group at 8.9%/9.0% in FY23/24E, with continuous cost discipline and narrowing loss of other segment.
- Maintain BUY.** We lifted FY23E-25E earnings by 21%-50%, with SOTP-based TP at US\$50.5, by assigning 6x FY23E P/E to Bigo Live.

Earnings Summary

(YE 31 Dec)	FY21A	FY22	FY23E	FY24E	FY25E
Revenue (US\$ mn)	2,619	2,412	2,288	2,349	2,426
YoY growth (%)	36.5	(7.9)	(5.1)	2.7	3.3
Net income (US\$ mn)	109	199	204	212	246
Adj. EPS (US\$)	1.4	2.8	2.8	2.9	3.4
YoY growth (%)	NA	83.0	2.3	4.0	15.8
Consensus EPS	NA	NA	1.8	2.1	2.6
P/E (x)	NA	12.3	12.0	11.6	10.1
P/S (x)	1.5	1.0	1.0	1.0	1.0
Yield (%)	7.0	7.0	7.0	6.0	6.0

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$50.5
(Previous TP)	US\$46.0
Up/Downside	+47.0%
Current Price	US\$34.0

China Entertainment Sector

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Stock Data

Mkt Cap (US\$ mn)	2,235
Avg 3 mths t/o (US\$ mn)	16.35
52w High/Low (US\$)	39.50/21.38
Total Issued Shares (mn)	53

Source: Bloomberg

Shareholding Structure

BlackRock	4.36%
T Rowe	3.83%
Morgan Stanley	3.38%

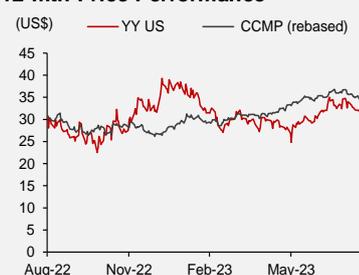
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-2.4%	1.4%
3-mth	-4.6%	9.4%
6-mth	2.7%	-13.9%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Figure 1: 2Q23 financial review

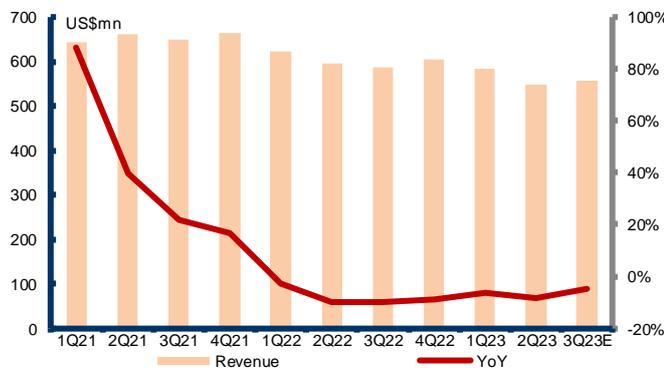
US\$ mn	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	QoQ	YoY	Consensus	Diff %
Revenue	651	664	624	596	587	605	584	547	-6.2%	-8.2%	535	2%
Gross profit	211	224	201	218	220	212	205	198	-3.4%	-9.5%	186	6%
Operating profit	7	61	6	39	20	(14)	3	9	272.9%	-75.6%	11	-12%
Adj. net profit	33	98	21	51	77	50	50	97	95.1%	89.1%	31	212%
Adj. EPS (US\$)	0.36	1.35	0.28	0.71	0.94	0.49	0.62	1.21	97.0%	71.4%	0.36	235%
Margin (%)												
Gross margin	32.4%	33.7%	32.2%	36.6%	37.5%	35.1%	35.1%	36.1%			34.8%	
Operating margin	1.1%	9.1%	1.0%	6.5%	3.4%	-2.3%	0.4%	1.7%			2.0%	
Adj. net margin	5.1%	14.7%	3.3%	8.6%	13.1%	8.3%	8.5%	17.8%			5.8%	
Growth (%)												
Revenue (YoY)	21.7%	16.8%	-3.0%	-9.9%	-9.8%	-8.9%	-6.4%	-8.2%			-10.2%	
Revenue (QoQ)	-1.7%	2.0%	-6.0%	-4.4%	-1.6%	3.1%	-3.5%	-6.2%			-8.3%	
Operating profit	NA	NA	NA	NA	NA	NA	NA	NA			NA	
Adj. net profit	NA	NA	NA	NA	131.5%	-48.4%	142.4%	89.1%			-48.8%	

Source: Company data, Bloomberg

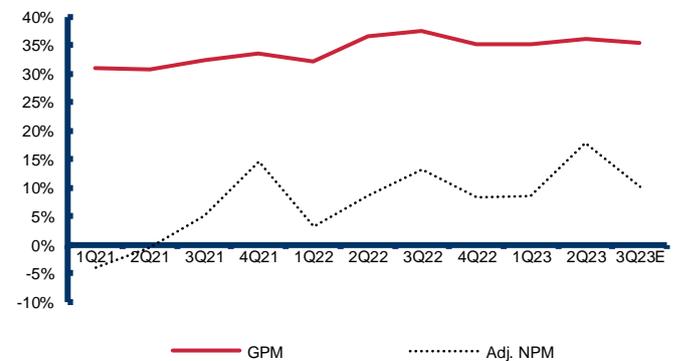
Figure 2: Revenue breakdown

US\$ mn	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	QoQ	YoY
Total revenue	651	664	624	596	587	605	584	547	-6.2%	-8.2%
by segment										
Live broadcasting	612	621	590	565	543	527	520	477	-8.3%	-15.6%
Others	38	43	34	31	44	77	63	70	11.3%	128.0%
by platform										
Bigo	569	576	535	503	483	476	468	471	0.7%	-6.3%
All other	82	88	89	93	103	128	116	76	-34.1%	-18.4%

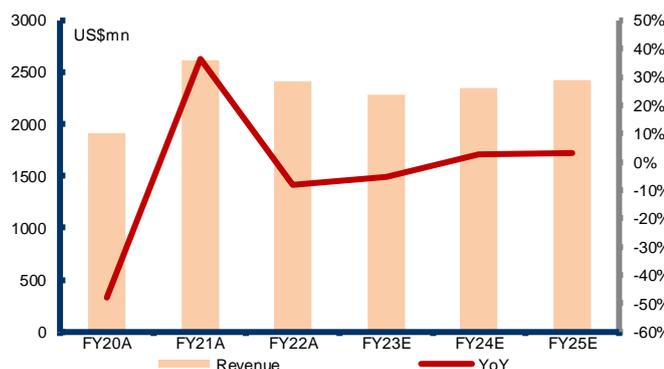
Source: Company data

Figure 3: Quarterly rev estimates

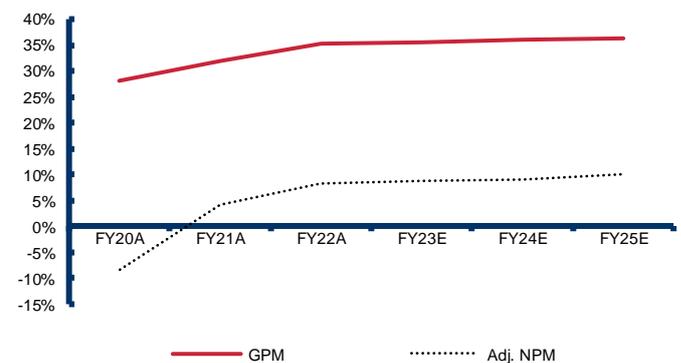
Source: Company data, CMBIGM estimates

Figure 4: Quarterly margin estimates

Source: Company data, CMBIGM estimates

Figure 5: Yearly rev estimates

Source: Company data, CMBIGM estimates

Figure 6: Yearly margin estimates

Source: Company data, CMBIGM estimates

We lifted FY23E-25E earnings by 21%-50%, to reflect better margin outlook (with higher GPM, FX change and manageable S&M).

Our SOTP-based TP was adjusted to US\$50.5. The TP was derived from: 1) YY Live: US\$1.9bn, based on proceeds from Baidu (for conservative estimates); and 2) Bigo Live: US\$1.8bn, by assigning 6x FY23E P/E (multiple below industrial average for its slower growth and competition pressure).

Figure 7: CMBIGM estimates vs consensus

US\$ mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	2,288	2,349	2,426	2,297	2,420	2,621	-0.4%	-3.0%	-7.4%
Gross Profit	813	848	880	803	860	941	1.2%	-1.3%	-6.5%
Operating Profit	150	158	185	51	83	127	191.9%	90.7%	45.4%
Net profit	204	212	246	142	168	204	43.5%	26.3%	20.4%
Adj. EPS (RMB)	2.42	2.50	2.89	1.77	2.13	2.60	36.4%	17.6%	11.2%
Gross Margin	35.5%	36.1%	36.3%	35.0%	35.5%	35.9%	+0.6ppts	+0.6ppts	+0.4ppts
Operating Margin	6.6%	6.7%	7.6%	2.2%	3.4%	4.9%	+4.3ppts	+3.3ppts	+2.8ppts
Net Margin	8.9%	9.0%	10.1%	6.2%	6.9%	7.8%	+2.7ppts	+2.1ppts	+2.3ppts

Source: CMBIGM estimates, Bloomberg

Figure 8: Earnings revision

US\$ mn, Dec-YE	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	2,288	2,349	2,426	2,316	2,384	2,468	-1.2%	-1.5%	-1.7%
Gross Profit	813	848	880	808	857	891	0.6%	-1.0%	-1.3%
Operating Profit	150	158	185	111	148	177	35.8%	7.4%	4.8%
Net profit	204	212	246	135	166	202	50.5%	27.5%	21.4%
Adj. EPS (RMB)	2.42	2.50	2.89	1.60	1.96	2.38	50.5%	27.5%	21.4%
Gross Margin	35.5%	36.1%	36.3%	34.9%	36.0%	36.1%	+0.6ppts	+0.2ppts	+0.2ppts
Operating Margin	6.6%	6.7%	7.6%	4.8%	6.2%	7.2%	+1.8ppts	+0.6ppts	+0.5ppts
Net Margin	8.9%	9.0%	10.1%	5.8%	7.0%	8.2%	+3.1ppts	+2.1ppts	+1.9ppts

Source: CMBIGM estimates

Figure 9: SOTP valuation

SOTP	Metrics		Multiple	Valuation		
(US\$ mn)	Rev	Adj. NP		Shareholding	Valuation	
YY Live	Based on US\$1.9bn from Baidu (transaction valuation of US\$3.6bn)			100%	1,900	
Bigo Live	FY23E	1,848	305	6x FY23E P/E	100%	1,832
Total					3,732	
Net cash (less: US\$1.9bn received from Baidu)					1,900	
Holding discount					30%	
Equity Value (US\$ mn)					3,943	
Target Price (US\$)					50.5	

Source: Company data, CMBIGM estimates

Figure 10: Valuation comps

Company	Ticker	Mkt cap (USD mn)	Currency	Price	CMBI Rating	CMBI TP	PE			PS			FY23-25 EPS CAGR
							FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	
JOYY	YY US	2,235	USD	32	BUY	50.5	12.0	11.6	10.1	1.0	1.0	1.0	10%
Live Streaming													
Hello Inc	MOMO US	1,699	USD	9	HOLD	14	5.7	5.3	5.0	1.0	0.9	0.9	6%
Inke	3700 HK	215	HKD	1	NA	NA	3.6	2.7	2.2	0.2	0.2	0.2	17%
Douyu	DOYU US	321	USD	1	NA	NA	35.7	31.0	23.9	0.4	0.4	0.4	36%
Huya	HUYA US	592	USD	2	BUY	6	NA	50.7	13.4	0.6	0.6	0.5	NA
Average							4.6	4.0	6.9	0.6	0.5	0.5	11%
Pan-entertainment													
TME	TME US	11,120	USD	6	BUY	9	13.8	13.1	11.6	3.0	3.0	2.7	6%
iQIYI	IQ US	4,428	USD	5	BUY	9	13.1	9.4	7.8	1.0	0.9	0.9	29%
China Literature	772 HK	4,099	HKD	31	NA	NA	20.0	17.5	15.6	3.8	3.5	3.2	14%
Bilibili	BILI US	6,046	USD	15	BUY	26	NA	NA	56.1	1.9	1.6	1.4	NA
Kuaishou	1024 HK	37,082	HKD	67	BUY	97	37.3	19.7	13.4	2.4	2.1	1.8	69%
Zhihu	ZH US	595	USD	1	BUY	2	NA	NA	18.7	1.0	0.8	0.7	NA
Average							15.7	14.9	13.4	2.2	2.0	1.8	17%
Average							15.3	14.1	12.4	1.5	1.4	1.3	15%

Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (US\$ mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	2,619	2,412	2,288	2,349	2,426
Live broadcasting	2,477	2,226	2,021	1,974	1,976
Others	142	186	267	374	450
COGS	(1,781)	(1,559)	(1,475)	(1,500)	(1,546)
Gross profit	838	852	813	848	880
S&M	(280)	(262)	(277)	(288)	(296)
Admin. Exp.	(468)	(400)	(372)	(359)	(354)
R&D	(222)	(142)	(132)	(142)	(144)
Others	-	(15)	-	(0)	(0)
Operating profit	(107)	51	51	59	86
Financial income	91	93	160	160	167
Other income	25	18	19	(0)	(0)
Pre-tax income	(78)	635	193	201	235
Income tax	(26)	(35)	(34)	(34)	(35)
MI	14	27	-	-	-
Share of equity inv	(26)	(498)	-	-	-
Net profit	(90)	119	158	167	201
Adj. net profit	109	199	204	212	246

Cash flow summary

YE 31 Dec (US\$ mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Net income	(130)	102	158	167	201
D&A	88	105	121	135	148
Change in WC	(26)	(50)	18	(9)	(11)
Others	2,081	735	36	179	169
Operating CF	2,013	892	333	472	506
Capex	(158)	(163)	(168)	(173)	(178)
Associates	-	-	-	-	-
Others	(821)	(288)	(116)	(116)	(116)
Investing CF	(979)	(451)	(283)	(288)	(294)
Equity raised	-	-	-	-	-
Change of debts	-	-	-	-	-
Others	(724)	-	-	-	-
Financing CF	(724)	-	-	-	-
Net change in cash	312	441	49	183	213
Cash (beg of yr)	1,756	2,068	2,509	2,558	2,742
FX	-	-	-	-	-
Cash (end of yr)	2,068	2,509	2,558	2,742	2,954

Balance sheet

YE 31 Dec (US\$ mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Non-current assets	4,050	4,427	4,659	4,696	4,726
Fixed asset	365	343	575	613	642
Long-term investments	1,022	660	660	660	660
Intangible assets	312	398	398	398	398
Others	2,350	3,025	3,025	3,025	3,025
Current assets	5,070	4,645	5,619	5,811	6,035
Cash	2,134	1,518	2,558	2,742	2,954
Deposit over 3 months	1,604	2,361	2,361	2,361	2,361
Account receivable	114	118	112	115	119
Others	1,218	648	588	594	602
Current liabilities	2,512	3,072	2,955	2,981	2,998
Borrowings	-	-	-	-	-
Account payable	18	56	53	54	54
Tax payable	66	78	78	78	78
Accrued expenses	2,346	2,360	2,250	2,274	2,287
Other	82	578	573	575	578
Non-current liabilities	980	497	475	475	475
Convertible debt	924	401	401	401	401
Other long-term liabilities	56	96	74	74	74
MI	34	233	218	203	189
Total net assets	5,628	5,503	6,848	7,052	7,289
Shareholders' equity	5,594	5,270	6,135	6,353	6,605

Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Sales mix (%)					
Live broadcasting	94.6	92.3	88.3	84.1	81.4
Others	5.4	7.7	11.7	15.9	18.6
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	36.5	(7.9)	(5.1)	2.7	3.3
Gross profit	55.2	1.7	(4.6)	4.4	3.7
EBIT	NA	NA	NA	16.6	45.9
Net profit	NA	83.0	2.3	4.0	15.8
P&L ratios (%)					
Operating margin	(4.1)	2.1	2.2	2.5	3.6
Pre-tax margin	(3.0)	26.3	8.4	8.6	9.7
Adj. net margin	4.2	8.3	8.9	9.0	10.1
Effective tax rate	33.2	(5.4)	(17.9)	(17.1)	(14.7)
Returns (%)					
ROE	1.8	3.7	3.6	3.4	3.8
ROA	1.3	2.2	2.1	2.0	2.3
Per share					
EPS (RMB)	(1.1)	1.7	2.2	2.3	2.8
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	71.6	73.2	85.2	87.8	90.9

Source: Company data, CMBIGM estimates

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