

YY (YY US)

Tour takeaways: Eyes on overseas expansion

YY attended our Beijing tour last week, and restated its globalization strategy. Investors eye on: 1) YY core revenue outlook and share ratio under domestic fierce competition; 2) Likee's user expansion strategy and monetization plan; and 3) HUYA's agreement with Tencent. Mgmt kept confident on its solid YY core and Likee user expansion. Maintain BUY with our TP of **US\$82**. Valuation at 10x FY20E P/E is attractive.

- Solid YY Core despite competition.** Mgmt. stated that sharing ratio to hosts remained unchanged (55% for platform, 45% for hosts (or 5-10% to agents)), despite competition from short videos (e.g. Douyin, Kuaishou). Given adequate supply, platforms should have higher bargaining power than top hosts, backed by its traffic operation mechanism. For instance, its top 10 hosts turnover rate was over 50% in the past few years, but YY Live still delivered solid growth with negligible impact from it. In terms of spender concentration, mgmt. stated that 10% spenders contribute 90% revenue in regular livestreaming platforms.
- Overseas expansion to step up.** For 2020 outlook, Likee still focuses more on user acquisition, while Bigo Live will be key monetization contributor. Ads and livestreaming would be top choice for Likee's monetization, but is still at early stage. Hago contributed ~30% of Bigo revenue in FY18E, but would decline to below 20% in FY19E (~20% in 3Q19), for tightening regulation on audio livestreaming in domestic market. For IMO, it posed limited impact on total S&M, as mgmt would not aggressively acquire users and monetize. User engagement and features enrichment would be top priority for IMO.
- Open to Huya issue.** Mgmt restated its open view to Huya's agreement with Tencent, and this issue depends on Tencent's plan in Mar 2020. As market has already acknowledged Huya's potential exclusion, we believe it would pose little impact on YY's business and stock price, as they operate independently.
- Maintain BUY.** We keep our financials and TP unchanged, with TP at **US\$82**. Our TP is equivalent to **18x/12x** FY19/20E P/E, based on: 1) YY Live (7x FY19E P/E); 2) Huya (based on mkt cap) and 3) Bigo (2x FY19E P/S). The stock is now trading at **9.6x** FY20E P/E. Valuation is attractive in our view.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	11,595	15,764	25,350	31,851	36,971
YoY growth (%)	41.3	36.0	60.8	25.6	16.1
Adj. net profit (RMB mn)	2,751	3,196	2,250	3,299	4,472
Adj. EPS (RMB)	45.23	49.94	32.30	47.37	64.22
YoY growth (%)	63.6	10.4	(35.3)	46.6	35.6
P/E (x)	10.1	9.1	14.1	9.6	7.1
P/B (x)	3.4	1.7	1.9	1.7	1.5
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	30.6	9.9	6.0	9.7	12.8
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price	US\$82.1
(Previous TP)	US\$82.1)
Up/Downside	+37.1%
Current Price	US\$59.8

China Internet Sector

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Stock Data

Mkt Cap (US\$ mn)	4,924
Avg 3 mths t/o (US\$ mn)	53.7
52w High/Low (US\$)	89/51
Total Issued Shares (mn)	65.0
Source: Bloomberg	

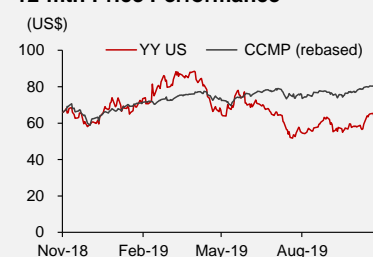
Shareholding Structure

Lei Jun	15.5%
Morgan Stanley	11.4%
Capital Group	4.8%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	4.4%	0.2%
3-mth	10.2%	3.9%
6-mth	-10.8%	-18.4%
Source: Bloomberg		

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

- Solid 3Q19 with stepping-up investment – 14 Nov 2019
- Solid 3Q19E on track – 22 Oct 2019
- Margin pressure with global expansion – 15 Aug 2019
- Guidance beat; Stepping up globalization – 31 May 2019
- 4Q18 beat, with Bigo's acquisition settled – 6 Mar 2019

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	11,595	15,764	25,350	31,851	36,971
Live broadcasting	10,671	14,878	19,648	23,965	27,335
Others	924	886	930	968	987
COGS	(7,026)	(10,017)	(16,922)	(21,261)	(24,420)
Gross profit	4,568	5,746	8,428	10,590	12,551
S&M	(691)	(1,149)	(3,352)	(3,511)	(3,705)
Admin.Exp.	(545)	(883)	(1,445)	(1,752)	(1,849)
R&D	(782)	(1,192)	(2,517)	(3,003)	(3,116)
Others	149	118	169	145	144
Operating profit	2,699	2,640	1,283	2,470	4,025
Financial income	180	486	440	509	472
Other income	12	(590)	-	-	-
Pre-tax Income	2,891	2,535	1,723	2,978	4,498
Income Tax	(416)	(478)	(327)	(566)	(855)
MI	18	(465)	(140)	(362)	(619)
Net profit	2,494	1,642	1,256	2,051	3,024
Adj. net profit	2,751	3,196	2,250	3,299	4,472

Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Net income	2,494	1,642	1,256	2,051	3,024
D&A	214	241	273	300	345
Change in WC	705	(108)	-	-	-
Income tax paid	(416)	(478)	(327)	(566)	(855)
Others	673	1,126	1,321	1,814	2,303
Operating CF	3,670	2,423	2,523	3,598	4,817
Capex	(328)	(447)	(718)	(902)	(1,047)
Associates	-	-	-	-	-
Others	(2,304)	(4,293)	-	-	-
Investing CF	(2,632)	(4,739)	(718)	(902)	(1,047)
Equity raised	-	5,846	-	-	-
Change of Debts	-	-	-	-	-
Others	-	-	-	-	-
Financing CF	-	5,846	-	-	-
Net change in cash	1,038	3,530	1,805	2,696	3,770
Cash (beg of yr)	1,580	2,618	6,147	7,952	10,648
FX	-	-	-	-	-
Cash (end of yr)	2,618	6,147	7,952	10,648	14,418

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Non-current assets	4,329	8,278	6,269	6,269	6,269
Fixed asset	1,017	1,296	1,296	1,296	1,296
Long-term investments	1,153	4,592	4,592	4,592	4,592
Intangible assets	37	75	75	75	75
Others	2,122	2,316	306	306	306
Current assets	10,129	17,483	17,845	19,934	22,987
Cash	2,617	6,004	7,952	10,648	14,418
Deposit over 3 months	6,000	7,327	8,482	7,874	7,158
Account receivable	376	1,217	1,217	1,217	1,217
Others	1,136	2,934	194	194	194
Current liabilities	3,146	3,846	3,846	3,846	3,846
Borrowings	588	-	-	-	-
Account payable	76	115	115	115	115
Tax payable	146	236	236	236	236
Accrued expenses	1,466	2,414	2,414	2,414	2,414
Other	869	1,082	1,082	1,082	1,082
Non-current liabilities	75	119	175	213	243
Convertible debt	7	-	-	-	-
Other long-term liabilities	69	119	175	213	243
MI	6	6	6	6	6
Total net assets	11,238	21,796	20,093	22,144	25,167
Shareholders' equity	11,232	21,790	20,087	22,138	25,161

Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Sales mix (%)					
Live broadcasting	92.0	94.4	96.1	96.9	97.3
Others	8.0	5.6	3.9	3.1	2.7
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	41.3	36.0	60.8	25.6	16.1
Gross profit	47.3	25.8	46.7	25.6	18.5
EBIT	50.4	(2.2)	(51.4)	92.5	63.0
Net profit	63.6	(34.1)	(23.5)	63.3	47.5
P&L ratios (%)					
Operating margin	23.3	16.7	5.1	7.8	10.9
Pre-tax margin	24.9	16.1	6.8	9.4	12.2
Adj. net margin	23.7	20.3	8.9	10.4	12.1
Effective tax rate	(14.4)	(18.8)	(19.0)	(19.0)	(19.0)
Returns (%)					
ROE	30.6	9.9	6.0	9.7	12.8
ROA	20.6	8.2	5.0	8.2	10.9
Per share					
EPS (RMB)	45.2	49.9	32.3	47.4	64.2
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	184.8	358.4	330.4	364.2	413.9

Source: Company data, CMBIS estimates

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