

JOYY Inc. (YY US)

Bigo's momentum to continue

YY delivered in-line 4Q20 results, with revenue +78% YoY. Non-GAAP OPM improved to 1.5%. 1Q21E rev guidance largely in line. YY Live was deconsolidated from this quarter. We are bullish on overseas livestreaming TAM (over US\$10bn), and expect the Group rev to grow 45% YoY in FY21E, with 0.2% non-GAAP NPM. Bigo would continue its momentum with rising paying ratio and ARPU, especially in developed markets. Likee is still at early stage of monetization, suggesting ample room ahead. We maintain Bigo's financial forecast unchanged, with higher SOTP-based TP at US\$136.

- **Solid 4Q20 with in-line guidance.** 4Q20 revenue grew 78% YoY, in line with our estimate. Non-GAAP OPM improved to 1.5%, with second quarterly profit. 1Q21E rev guidance came in at +73% to 77% YoY (in US\$), largely in-line. YY live financials will be reflected as discontinued operations, thus not comparable with consensus. JOYY announced dividend of US\$0.51/ADS, suggesting 2% yield.
- **Bigo's momentum to continue.** We believe Bigo Live would continue its momentum in FY21E, forecasting 45% YoY, with higher rev mix from developed markets (~43%). 1Q21E rev was estimated to grow 5% QoQ, with relatively stable OPM QoQ. Mgmt. stated that Bigo's paying ratio was still below YY Live, while ARPU at 3x of YY Live. We are bullish on overseas livestreaming TAM (over US\$10bn), and expect Bigo to benefit from structural opportunities in global epidemic, with deeper penetration and diversified revenue.
- **Likee to enhance monetization with user expansion.** Likee would still prioritize its user expansion in FY21E, while stepping up livestreaming monetization. Likee rev +400% YoY in 4Q20, and we expect higher rev mix ahead, coupled with narrowing loss. We expect Hago's rev to double in FY21E at RMB800mn. Hago has achieved monthly breakeven in 4Q20, and is estimated to achieve quarterly profit in 3Q21E & 4Q21E.
- **Maintain BUY.** With YY Live deconsolidation, we forecast JOYY's topline at 33% CAGR in FY20-23E. We slightly raised our SOTP-based TP to US\$136 with investment change. Valuation is attractive (3.2x FY21E P/S), given its high growth potential in overseas TAM.

Earnings Summary

| (YE 31 Dec) | FY19A | FY20A | FY21E | FY22E | FY23E |
|---------------------|----------|----------|----------|----------|----------|
| Revenue (RMB mn) | 25,576 | 23,059 | 19,251 | 25,074 | 30,946 |
| YoY growth (%) | 62.2 | (9.8) | NA | 30.2 | 23.4 |
| Net income (RMB mn) | 2,253 | 1,502 | 47 | 816 | 1,931 |
| Adj. EPS (RMB) | 28.79 | 16.30 | 0.58 | 9.81 | 22.75 |
| YoY growth (%) | (41.6) | (43.4) | NA | 1587.7 | 131.9 |
| P/E (x) | 25.9 | 45.7 | 1281.6 | 75.9 | 32.7 |
| P/S (x) | 2.3 | 3.0 | 3.2 | 2.5 | 2.0 |
| Yield (%) | 0.0 | 2.0 | 0.0 | 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\$136.0 |
| (Previous TP) | US\$130.0 |
| Up/Downside | +41.5% |
| Current Price | US\$96.1 |

China Internet Sector

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

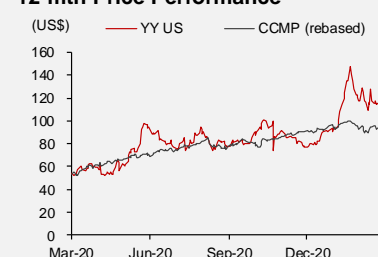
Miriam Lu
 (852) 3761 8728
 miriamlu@cmbi.com.hk

| Stock Data | |
|--------------------------|-------------|
| Mkt Cap (US\$ mn) | 8,502 |
| Avg 3 mths t/o (US\$ mn) | 151.59 |
| 52w High/Low (US\$) | 148.9/ 50.7 |
| Total Issued Shares (mn) | 65 |
| Source: Bloomberg | |

| Shareholding Structure | |
|------------------------|-------|
| Lei Jun | 27.5% |
| Morgan Stanley | 7.6% |
| BlackRock | 4.5% |
| Source: Bloomberg | |

| Share Performance | | |
|-------------------|----------|----------|
| | Absolute | Relative |
| 1-mth | -10.9% | -9.9% |
| 3-mth | 35.7% | 33.9% |
| 6-mth | 36.2% | 14.5% |
| Source: Bloomberg | | |

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

1. All in Bigo with YY Live sale – 18 Nov 2020
2. All round beat with higher Bigo guidance – 14 Aug 2020
3. Bigo intact despite geographic headwinds – 30 Jul 2020

Figure 1: 4Q20 financial review

| RMB mn | 4Q19 | 3Q20 | 4Q20 | QoQ | YoY |
|-------------------|--------|--------|--------|------|-------|
| Revenue | 2,132 | 3,703 | 3,784 | 2.2% | 77.5% |
| Operating profit | (863) | (620) | (558) | NA | NA |
| Net profit | (833) | 1,306 | (808) | NA | NA |
| Adj. net profit | (456) | (185) | (149) | NA | NA |
| Adj. EPS (RMB) | (5.70) | (2.31) | (1.86) | NA | NA |
| Margin (%) | | | | | |
| Gross margin | 29.0% | 29.1% | 29.3% | | |
| Operating margin | -40.5% | -16.7% | -14.7% | | |
| Adj. net margin | -21.4% | -5.0% | -3.9% | | |
| Growth (%) | | | | | |
| Revenue (YoY) | NA | NA | 77.5% | | |
| Revenue (QoQ) | NA | NA | 2.2% | | |
| Operating profit | NA | NA | -35.4% | | |
| Adj. net profit | NA | NA | -67.2% | | |

Source: Company data, Bloomberg, CMBIS estimates

Figure 2: Revenue breakdown

| RMB mn | 4Q19 | 3Q20 | 4Q20 | QoQ | YoY |
|----------------------|--------------|--------------|--------------|-------------|--------------|
| Total revenue | 2,132 | 3,703 | 3,784 | 2.2% | 77.5% |
| by segment | | | | | |
| Live broadcasting | 1,859 | 3,544 | 3,594 | 1.4% | 93.3% |
| Others | 273 | 159 | 190 | 18.9% | -30.5% |
| by platform | | | | | |
| Bigo | 1,804 | 3,395 | 3,390 | -0.1% | 87.9% |
| All other | 328 | 308 | 394 | 27.7% | 20.2% |

Source: Company data

Figure 3: SOTP valuation

| Figure 9: 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% | | 9,865 |
| BIGO | FY21E | 19,251 | NA | 3.0x P/S | 100% | 57,753 |
| Total | | | | | | 91,167 |
| Net cash | | | | | | 11,955 |
| Holding discount | | | | | | 20% |
| Equity Value (Rmb mn) | | | | | | 82,498 |
| Target Price (US\$) | | | | | | 136 |

Source: Company data, CMBIS estimates

Financial Summary

Income statement

| YE 31 Dec (RMB mn) | FY19A | FY20A | FY21E | FY22E | FY23E |
|-------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Revenue | 25,576 | 23,059 | 19,251 | 25,074 | 30,946 |
| Live broadcasting | 24,028 | 22,007 | 16,598 | 21,578 | 26,531 |
| Others | 1,548 | 1,052 | 2,653 | 3,496 | 4,414 |
| COGS | (17,148) | (15,351) | (13,474) | (17,156) | (20,618) |
| Gross profit | 8,428 | 7,708 | 5,777 | 7,918 | 10,328 |
| S&M | (3,740) | (4,005) | (4,543) | (5,548) | (6,364) |
| Admin. Exp. | (1,489) | (1,218) | (1,089) | (1,148) | (1,241) |
| R&D | (2,535) | (2,517) | (2,340) | (2,607) | (2,901) |
| Others | 405 | 223 | 59 | 63 | 67 |
| Operating profit | 1,068 | 191 | (2,137) | (1,322) | (111) |
| Financial income | 734 | 698 | 42 | 49 | 77 |
| Other income | 2,407 | 2,319 | - | - | 0 |
| Pre-tax Income | 4,208 | 3,208 | (2,095) | (1,273) | (34) |
| Income Tax | (547) | (554) | 419 | 255 | 7 |
| MI | (255) | (48) | (8) | (5) | (0) |
| Share of equity inv | 39 | (53) | - | - | - |
| Net profit | 3,418 | 9,647 | (1,668) | (1,014) | (27) |
| Adj. net profit | 2,253 | 1,502 | 47 | 816 | 1,931 |

Cash flow summary

| YE 31 Dec (RMB mn) | FY19A | FY20A | FY21E | FY22E | FY23E |
|---------------------------|----------------|--------------|----------------|----------------|---------------|
| Net income | 3,379 | 377 | (1,676) | (1,019) | (27) |
| D&A | 273 | 330 | 925 | 925 | 925 |
| Change in WC | 839 | 2,928 | 645 | 571 | 488 |
| Others | 18 | (1,445) | 974 | 1,089 | 1,217 |
| Operating CF | 4,510 | 2,190 | 867 | 1,566 | 2,603 |
| Capex | (725) | (417) | (925) | (925) | (925) |
| Associates | - | - | - | - | - |
| Others | (1,352) | 1,772 | - | - | - |
| Investing CF | (2,076) | 1,355 | (925) | (925) | (925) |
| Equity raised | 10,923 | - | - | - | - |
| Change of Debts | - | - | - | - | - |
| Others | - | - | - | - | - |
| Financing CF | 10,923 | - | - | - | - |
| Net change in cash | (2,106) | 3,545 | (57) | 641 | 1,678 |
| Cash (beg of yr) | 6,004 | 3,898 | 11,371 | 11,314 | 11,955 |
| FX | - | - | - | - | - |
| Cash (end of yr) | 3,898 | 7,444 | 11,314 | 11,955 | 13,633 |

Balance sheet

| YE 31 Dec (RMB mn) | FY19A | FY20A | FY21E | FY22E | FY23E |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|
| Non-current assets | 23,410 | 22,024 | 27,363 | 27,363 | 27,363 |
| Fixed asset | 2,256 | 2,412 | 2,621 | 2,621 | 2,621 |
| Long-term investments | 2,363 | 822 | 129 | 129 | 129 |
| Intangible assets | 3,180 | 3,180 | 2,246 | 2,246 | 2,246 |
| Others | 15,610 | 15,610 | 22,368 | 22,368 | 22,368 |
| Current assets | 28,800 | 32,306 | 26,128 | 27,476 | 29,866 |
| Cash | 3,894 | 7,444 | 11,314 | 11,955 | 13,633 |
| Deposit over 3 months | 16,771 | 17,424 | 205 | 205 | 205 |
| Account receivable | 1,733 | 745 | 1,358 | 1,768 | 2,182 |
| Others | 6,403 | 6,693 | 13,251 | 13,547 | 13,845 |
| Current liabilities | 7,638 | 8,585 | 7,535 | 8,812 | 10,012 |
| Borrowings | 116 | - | 734 | 734 | 734 |
| Account payable | 125 | 149 | 194 | 247 | 296 |
| Tax payable | 452 | 452 | 397 | 397 | 397 |
| Accrued expenses | 4,673 | 5,597 | 4,479 | 5,703 | 6,853 |
| Other | 2,273 | 2,388 | 1,731 | 1,731 | 1,731 |
| Non-current liabilities | 5,688 | 5,683 | 5,463 | 5,463 | 5,463 |
| Convertible debt | 5,009 | 5,009 | 5,084 | 5,084 | 5,084 |
| Other long-term liabilities | 679 | 674 | 379 | 379 | 379 |
| MI | 5,352 | 5,469 | 28 | 23 | 22 |
| Total net assets | 38,884 | 40,062 | 40,493 | 40,563 | 41,753 |
| Shareholders' equity | 33,532 | 34,593 | 40,466 | 40,541 | 41,731 |

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 | (33.3) | 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 | 8.8 | 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) | 28.8 | 16.3 | 0.6 | 9.8 | 22.7 |
| DPS (RMB) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| BVPS (RMB) | 639.5 | 679.0 | 655.5 | 658.8 | 674.0 |

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.