

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				

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

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

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

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- Solid 4Q19; Eyes on overseas momentum – 18 Mar 2020
- Overseas expansion to bring upside – 9 Mar 2020
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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%
Margin (%)															
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%	
Growth (%)															
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
Total revenue	3,249	3,773	4,100	4,641	4,781	6,295	6,882	7,618	7,149	-6.2%	49.6%
by segment											
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%
by platform											
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

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
Total						51,508
Net cash						12,574
Holding discount						20%
Equity Value (Rmb mn)						51,266
Target Price (US\$)						81

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
Revenue	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
COGS	(10,017)	(17,148)	(15,039)	(15,204)	(17,242)
Gross profit	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
Operating profit	2,640	1,068	236	950	2,414
Financial income	486	734	698	607	607
Other income	(590)	2,407	(554)	(554)	(554)
Pre-tax Income	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
Net profit	1,642	3,379	294	1,253	2,659
Adj. net profit	3,196	4,327	2,223	3,128	4,578

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income	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
Operating CF	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)
Investing CF	(4,739)	(2,076)	1,355	(498)	(511)
Equity raised	5,846	10,923	-	-	-
Change of Debts	-	-	-	-	-
Others	-	-	-	-	-
Financing CF	5,846	10,923	-	-	-
Net change in cash	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	-	-	-	-	-
Cash (end of yr)	6,004	3,898	7,113	8,537	11,496

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	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
Current assets	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
Current liabilities	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
Non-current liabilities	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
Total net assets	21,796	38,884	40,034	41,973	45,361
Shareholders' equity	18,939	33,532	34,565	36,504	39,891

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Live broadcasting	94.4	93.9	94.5	93.7	92.4
Others	5.6	6.1	5.5	6.3	7.6
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
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
P&L ratios (%)					
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)
Returns (%)					
ROE	9.9	11.1	2.9	6.0	6.9
ROA	8.2	8.7	2.1	4.3	4.9
Per share					
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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CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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