

JOYY Inc. (YY US)

Bigo intact despite geographic headwinds

We expect YY to deliver 2Q20E results in mid-Aug, with revenue/ adj. net profit decline of 18%/ 23% YoY, 0%/-9% compared to consensus. Bigo rev would still see 70% YoY growth despite banning of Chinese apps in India. Market concern lies in potential ban in US, contributing ~10% of Bigo's rev. We expect YY Core's rev to be flat YoY in 2Q20E. We keep positive on Bigo's TAM in overseas market, and expect its secular growth potential to remain intact despite short term geographic headwinds. We lifted our TP to US\$99 by rolling over to FY21E multiple, with forecast unchanged.

- **2Q20E preview.** We expect JOYY's revenue/non-GAAP net profit to decline 18%/ 23% YoY in 2Q20E, 0%/-9% compared to consensus. By segment, we estimate YY Core/ Bigo rev to grow at 70%/0% YoY, with total non-GAAP OPM at 6.5%. We expect limited financial impact from India ban, and reiterate our confidence on Bigo's growth potential.
- **Limited impact from geographic risks.** JOYY's share price bears pressure recently due to banning of Chinese apps in India and potential risk in US. However, India market targeted short-video user expansion, rather than monetization or profitability. It contributes <5% of Bigo's rev and posed limited financial impact on JOYY group. After India, US & Japan are considering ban on Tiktok, suggesting potential risk for other Chinese apps. US market currently devotes ~10% of Bigo's rev, and still operates normally at this moment. Given overseas livestreaming TAM of over US\$10bn, we believe Bigo is still at early development, and its monthly breakeven target in 4Q20E stays intact. We forecast Bigo's topline/ bottom line at RMB2.1bn/-RMB220mn in 2Q20E, with rising contribution from developed markets.
- **YY Core on track.** We expect YY Core's revenue to be flat YoY in 2Q20E (vs. -4% YoY in 1Q20), and see positive growth in 2H20E. We forecast YY Core's non-GAAP OPM at 20% in 2Q20E for effective cost control. Given macro uncertainty under epidemic, we expect its disciplined investment and expenses to continue.
- **Maintain BUY.** We lifted our TP to US\$99 from US\$81 by rolling over to FY21E multiple and in consideration of Huya's mkt cap change (20.0x FY21E P/E). We think market concern on geographic headwinds has been partly priced in recent weak price. Valuation is not demanding, given Bigo solid momentum and further catalysts (e.g. Huya's disposal).

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	25.60	35.83	47.02
P/E (x)	10.8	18.5	21.9	15.6	10.7
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	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	US\$99.0
(Previous TP	US\$81.0)
Up/Downside	+28.6%
Current Price	US\$76.3

China Internet Sector

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Stock Data

Mkt Cap (US\$ mn)	6,008
Avg 3 mths t/o (US\$ mn)	93.0
52w High/Low (US\$)	99/41
Total Issued Shares (mn)	62.0
Source: Bloomberg	

Shareholding Structure

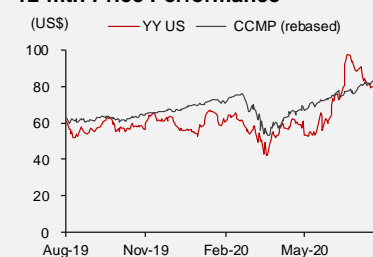
Lei Jun	28.5%
Morgan Stanley	5.7%
Capital Group	5.2%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	-14.1%	-19.6%
3-mth	32.8%	12.3%
6-mth	22.1%	7.4%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

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Figure 1: 2Q20E financial preview

RMB mn	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20E	QoQ	YoY	Consensus	Diff %
Revenue	3,249	3,773	4,100	4,641	4,781	6,295	6,882	7,618	7,149	5,142	-28.1%	-18.3%	5,117	0%
Operating profit	596	714	611	719	474	72	160	362	186	29	-84.4%	-59.7%	39	-25%
Net profit	444	(137)	651	684	3,104	107	178	156	370	45	-87.8%	-57.9%	778	-94%
Adj. net profit	700	810	787	847	654	520	693	601	429	398	-7.1%	-23.4%	440	-9%
Adj. EPS (RMB)	10.96	12.69	12.07	13.03	9.32	5.14	6.42	6.70	4.80	4.35	-9.4%	-15.4%	4.80	-9%
Margin (%)														
Gross margin	38.0%	38.0%	38.0%	35.1%	33.9%	33.7%	31.5%	33.0%	30.8%	38.2%			36.7%	
Operating margin	18.4%	18.9%	14.9%	15.5%	9.9%	1.1%	2.3%	4.8%	2.6%	0.6%			0.8%	
Adj. net margin	21.5%	21.5%	19.2%	18.2%	13.7%	8.3%	10.1%	7.9%	6.0%	7.7%			8.6%	
Growth (%)														
Revenue (YoY)	30.8%	44.6%	32.6%	28.0%	47.1%	66.8%	67.8%	64.2%	49.6%	-18.3%			-18.7%	
Revenue (QoQ)	5.1%	16.1%	8.7%	13.2%	3.0%	31.7%	9.3%	10.7%	-6.2%	-28.1%			-28.4%	
Operating profit	-4.0%	19.1%	-7.6%	-12.5%	-20.6%	-89.9%	-73.8%	-49.6%	-60.6%	-59.7%			-46.0%	
Adj. net profit	16.9%	35.7%	23.1%	-10.7%	-6.6%	-35.8%	-11.9%	-29.1%	-34.4%	-23.4%			-15.5%	

Source: Company data, Bloomberg, CMBIS estimates

Figure 2: Revenue breakdown

RMB mn	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20E	QoQ	YoY
Total revenue	3,249	3,773	4,100	4,641	4,781	6,295	6,882	7,618	7,149	5,142	-28.1%	-18.3%
by segment												
Live broadcasting	2,032	3,560	3,895	4,391	4,485	5,923	6,474	7,147	6,756	4,785	-29.2%	-19.2%
Others	258	32	206	249	296	372	408	472	393	357	-9.1%	-4.1%
by platform												
YY Live	2,407	2,735	2,824	3,136	2,753	3,054	3,080	3,346	2,631	3,055	16.1%	0.0%
Huya	844	1,038	1,277	1,505	1,631	2,010	2,265	2,467	2,412	NA	NA	NA
Bigo					396	1,231	1,537	1,804	2,107	2,087	-0.9%	69.6%

Source: Company data

Figure 3: SOTP valuation

SOTP		Metrics		Multiple		Valuation
(Rmb mn)	Rev	Net profit		Shareholding		Valuation
YY Live	FY21E 12,262	2,023	8x P/E	100%		16,185
Huya	Based on mkt cap			31%		11,067
BIGO	FY21E 12,770	NA	3.0x P/S	100%		38,311
Total						65,564
Net cash						12,574
Holding discount						20%
Equity Value (Rmb mn)						62,510
Target Price (US\$)						99

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	23,989	26,019	29,839	-1.0%	-3.8%	-1.7%
Gross Profit	8,714	9,828	12,100	8,480	9,802	11,520	2.8%	0.3%	5.0%
Operating Profit	236	950	2,414	915	1,701	2,520	-74.2%	-44.1%	-4.2%
Net profit	2,223	3,128	4,578	2,319	3,317	4,379	-4.1%	-5.7%	4.6%
Adj. EPS (RMB)	24.26	34.01	49.56	25.60	35.83	47.02	-5.2%	-5.1%	5.4%
Gross Margin	36.7%	39.3%	41.2%	35.3%	37.7%	38.6%	+1.3ppts	+1.6ppts	+2.6ppts
Operating Margin	1.0%	3.8%	8.2%	3.8%	6.5%	8.4%	-2.8ppts	-2.7ppts	-0.2ppts
Net Margin	9.4%	12.5%	15.6%	9.7%	12.7%	14.7%	-0.3ppts	-0.3ppts	+0.9ppts

Source: CMBIS estimates, Bloomberg

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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