

# Momo (MOMO US)

## 3Q19E Preview: user recovery to come

Momo will announce its 3Q19 results in Nov. We forecast its topline/bottom line to grow 17.5%/32% YoY in 3Q19E. We expect user metrics to rebound QoQ in 2H19E, and keep confident on its long-term user trend. Given its attractive valuation at **10.5x** FY20E P/E, compared to its historical valuation, we suggest to buy on dips.

- **Expecting solid 3Q19E.** We forecast a 17.5% YoY revenue growth to RMB4.3bn in 3Q19E (in line with consensus), and expect adj. net profit up 32% YoY to RMB990mn (1% above consensus). We expect solid financials in 2H19E after regulation headwinds. Eyes on its user recovery and VAS expansion.
- **User metrics rebound to come.** After user fluctuation in 2Q19, we expect Momo's MAU and paying users to grow sequentially in 3Q19E, mainly due to: 1) rising mid-to-lower spenders through enriching interactive features (e.g. Parking lot <天天抢车位>); 2) updated paying user ranking system with offline promotion; and 3) Tantan's recovery.
- **3Q19E financials intact.** We expect solid live streaming momentum to continue in 2H19E, driven by offline campaigns promotion and wealth ranks upgrade. We forecast Momo's livestreaming/ VAS to grow 15%/72% YoY in 3Q19E, while mobile games and marketing to be stable QoQ. We estimate Tantan's revenue to grow 10% QoQ in 3Q19E, and continuously rebound in 4Q19E. Tantan's net loss in 3Q19E would widen QoQ (for heavier promotion), but its margin drag to the Group is limited. We forecast its gross margin to decrease 2ppts QoQ, to 48.6% for quarter tournament, while adj.net margin to decline 7ppts QoQ to 23.1% in 3Q19E, with heavier marketing efforts on Tantan. Tantan targets monthly breakeven in domestic market in 2020E.
- **Maintain BUY.** The stock is now trading at **12.1x/10.5x** FY19/20E P/E. Valuation is attractive. We think Momo's tough time was over, and 3Q19E user metrics recovery and VAS expansion could be further catalysts. We keep our financial forecasts unchanged. Maintain BUY with unchanged TP of **US\$45** (16x FY19E P/E).

### Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	8,718	13,995	16,544	19,119	22,050
YoY growth (%)	127.1	60.5	18.2	15.6	15.3
Net income (RMB mn)	2,464	3,611	4,279	5,113	6,048
EPS (RMB)	12.5	16.9	19.1	22.2	25.9
YoY growth (%)	106.4	35.9	14.1	15.1	16.5
P/E (x)	18.7	13.8	12.1	10.5	9.0
P/B (x)	6.4	4.4	3.7	3.5	3.3
Yield (%)	0.0	2.0	0.0	0.0	0.0
ROE (%)	37.4	33.5	29.8	38.6	42.8
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIS estimates

### BUY (Maintain)

Target Price	US\$45.0
(Previous TP	US\$45.0)
Up/Downside	+33.7%
Current Price	US\$33.1

### China Internet Sector

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### Stock Data

Mkt Cap (US\$ mn)	6,857
Avg 3 mths t/o (US\$ mn)	83.7
52w High/Low (US\$)	40.9/22.5
Total Issued Shares (mn)	167.2
Source: Bloomberg	

### Shareholding Structure

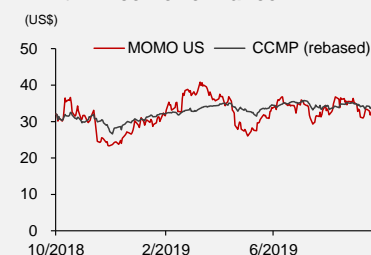
FMR	10.7%
BlackRock	8.9%
Renaissance Tech	8.0%
Source: Bloomberg	

### Share Performance

	Absolute	Relative
1-mth	-9.0%	-8.0%
3-mth	-5.7%	-5.0%
6-mth	-7.3%	-8.3%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: Deloitte

### Related Reports

1. Solid 2Q19; Expecting rebound in 2H19E – 28 Aug 2019
2. Moving to 2H19E recovery – 10 Jul 2019
3. Solid 1Q19; Limited impact from regulations – 29 May 2019

Figure 1: 3Q19E preview

	2018A				2019E				2020E			
(RMB mn, YE Dec 31)	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19E	4Q19E	1Q20E	2Q20E	3Q20E	4Q20E
<b>Net Revenue</b>	<b>2,764.4</b>	<b>3,152.1</b>	<b>3,647.6</b>	<b>3,865.0</b>	<b>3,722.9</b>	<b>4,152.6</b>	<b>4,285.5</b>	<b>4,402.6</b>	<b>4,281.0</b>	<b>4,625.5</b>	<b>4,953.8</b>	<b>5,258.9</b>
Live broadcasting service	2,360.1	2,620.9	2,769.2	2,975.4	2,689.4	3,099.9	3,198.3	3,262.5	3,103.2	3,291.8	3,449.8	3,589.2
VAS	235.0	352.2	573.1	726.4	903.9	948.4	988.5	1,026.5	1,112.1	1,225.7	1,405.7	1,561.5
Mobile game	42.2	142.0	117.3	122.8	80.7	76.2	67.4	79.3	36.7	74.6	58.1	57.8
Mobile marketing	118.9	34.8	27.9	25.6	39.0	23.2	26.0	28.8	23.3	27.5	33.9	43.8
Other services	8.2	2.3	160.0	14.7	9.9	4.9	5.2	5.4	5.7	5.9	6.2	6.6
COGS(Non-GAAP)	1,328.5	1,714.8	2,024.8	2,102.8	1,851.4	2,040.0	2,204.7	2,277.2	2,179.9	2,334.9	2,504.1	2,627.6
<b>Gross Profit (Non-GAAP)</b>	<b>1,435.9</b>	<b>1,437.3</b>	<b>1,622.8</b>	<b>1,762.2</b>	<b>1,871.6</b>	<b>2,112.6</b>	<b>2,080.8</b>	<b>2,125.4</b>	<b>2,101.1</b>	<b>2,290.6</b>	<b>2,449.8</b>	<b>2,631.3</b>
<b>Operating Expense</b>	<b>498.8</b>	<b>540.6</b>	<b>978.9</b>	<b>968.3</b>	<b>1,450.0</b>	<b>1,146.9</b>	<b>1,039.6</b>	<b>956.1</b>	<b>994.7</b>	<b>1,052.8</b>	<b>1,078.1</b>	<b>1,117.5</b>
S&M	267.1	323.0	532.0	584.6	567.5	502.1	600.0	550.3	513.7	601.3	594.5	578.5
G&A	63.2	48.8	68.2	118.9	92.9	119.4	85.7	88.1	102.5	115.6	94.1	99.9
R&D	96.8	135.0	214.1	207.8	207.4	204.8	192.8	176.1	214.0	185.0	198.2	262.9
Share-based comp expenses	78.7	134.0	170.0	199.1	593.1	482.5	171.4	176.1	171.2	185.0	198.2	210.4
<b>EBIT</b>	<b>937.1</b>	<b>896.7</b>	<b>643.8</b>	<b>793.9</b>	<b>421.6</b>	<b>965.8</b>	<b>1,041.2</b>	<b>1,169.3</b>	<b>1,106.4</b>	<b>1,237.8</b>	<b>1,371.7</b>	<b>1,513.8</b>
<b>Adj. EBIT (ex-SBC)</b>	<b>1,015.7</b>	<b>1,030.6</b>	<b>813.8</b>	<b>993.0</b>	<b>1,014.7</b>	<b>1,448.3</b>	<b>1,212.6</b>	<b>1,345.4</b>	<b>1,277.6</b>	<b>1,422.9</b>	<b>1,569.9</b>	<b>1,724.1</b>
<b>Adj. EBITDA</b>	<b>889.9</b>	<b>797.8</b>	<b>513.2</b>	<b>637.3</b>	<b>-123.1</b>	<b>531.4</b>	<b>911.5</b>	<b>1,034.9</b>	<b>983.0</b>	<b>1,100.6</b>	<b>1,221.4</b>	<b>1,351.2</b>
Interest Income, net	47.9	40.1	58.3	70.5	74.8	100.2	65.0	77.4	28.7	37.3	48.7	61.5
Other Income, net	8.1	10.8	16.5	13.3	-4.5	6.4	6.4	6.4	6.4	6.4	6.4	6.4
<b>Pre Tax Profit</b>	<b>993.1</b>	<b>947.6</b>	<b>718.7</b>	<b>877.7</b>	<b>491.9</b>	<b>1,072.3</b>	<b>1,112.6</b>	<b>1,253.1</b>	<b>1,141.5</b>	<b>1,281.5</b>	<b>1,426.8</b>	<b>1,581.6</b>
Tax	170.9	198.6	146.8	184.3	163.7	283.9	294.5	288.2	228.3	256.3	285.4	316.3
Minority interest	-3.0	-2.2	-7.7	-14.5	-2.8	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7
Dividened on Preferred Capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>825.2</b>	<b>751.1</b>	<b>579.5</b>	<b>707.9</b>	<b>289.3</b>	<b>789.1</b>	<b>818.8</b>	<b>965.6</b>	<b>913.9</b>	<b>1,025.9</b>	<b>1,142.1</b>	<b>1,266.0</b>
<b>Adj. Net Profit</b>	<b>903.8</b>	<b>885.1</b>	<b>749.5</b>	<b>907.0</b>	<b>910.3</b>	<b>1,242.5</b>	<b>990.2</b>	<b>1,141.7</b>	<b>1,085.1</b>	<b>1,210.9</b>	<b>1,340.3</b>	<b>1,476.3</b>
Diluted EPS	4.0	3.6	2.7	3.2	1.3	3.5	3.6	4.2	3.9	4.4	4.9	5.4
Adj. Diluted EPS	4.4	4.2	3.5	4.1	4.1	5.6	4.4	4.9	4.7	5.2	5.7	6.3
<b>Margins (%)</b>												
Gross Margin	51.9	45.6	44.5	45.6	50.3	50.9	48.6	48.3	49.1	49.5	49.5	50.0
Operating Margin	33.9	28.4	17.7	20.5	11.3	23.3	24.3	26.6	25.8	26.8	27.7	28.8
Adj. Operating Margin	36.7	32.7	22.3	25.7	27.3	34.9	28.3	30.6	29.8	30.8	31.7	32.8
Adj. EBITDA Margin	32.2	25.3	14.1	16.5	-3.3	12.8	21.3	23.5	23.0	23.8	24.7	25.7
Net Margin	29.8	23.8	15.9	18.3	7.8	19.0	19.1	21.9	21.3	22.2	23.1	24.1
Adj. Net Margin	32.7	28.1	20.5	23.5	24.5	29.9	23.1	25.9	25.3	26.2	27.1	28.1
<b>QoQ Growth (%)</b>												
Net Revenue	8.2	14.0	15.7	6.0	-3.7	11.5	3.2	2.7	-2.8	8.0	7.1	6.2
Gross Profit	16.3	0.1	12.9	8.6	6.2	12.9	-1.5	2.1	-1.1	9.0	6.9	7.4
EBIT	32.3	-4.3	-28.2	23.3	-46.9	129.1	7.8	12.3	-5.4	11.9	10.8	10.4
Net Profit	28.0	-9.0	-22.8	22.2	-59.1	172.8	3.8	17.9	-5.4	12.3	11.3	10.8
Adj. Net Profit	24.3	-2.1	-15.3	21.0	0.4	36.5	-20.3	15.3	-5.0	11.6	10.7	10.2
Diluted EPS	28.4	-10.7	-23.8	16.8	-59.2	171.5	2.7	15.6	-5.4	11.7	10.8	10.8
Adj. Diluted EPS	24.7	-3.9	-16.3	15.7	0.2	38.6	-22.7	13.0	-5.0	11.0	10.1	10.2
<b>YoY Growth (%)</b>												
Net Revenue	51.3	48.5	55.9	51.3	34.7	31.7	17.5	13.9	15.0	11.4	15.6	19.5
Gross Profit	43.6	30.4	38.9	42.8	30.3	47.0	28.2	20.6	12.3	8.4	17.7	23.8
EBIT	49.4	78.8	9.6	12.1	-55.0	7.7	61.7	47.3	162.4	28.2	31.7	29.5
Net Profit	44.6	66.6	21.1	24.7	0.7	40.4	32.1	25.9	19.2	-2.5	35.4	29.3
Adj. Net Profit	44.6	66.6	21.1	24.7	0.7	40.4	32.1	25.9	19.2	-2.5	35.4	29.3
Diluted EPS	46.0	67.0	8.2	2.1	-67.5	-1.3	32.9	31.6	205.1	25.6	35.4	29.8
Adj. Diluted EPS	43.2	64.0	18.0	16.0	-6.8	34.5	24.3	21.4	15.2	-7.8	31.4	28.0

Source: Company data, CMBIS estimates

Figure 2: Peers valuation

Company	Ticker	Mkt cap (USD mn)	Currency	Price	PE			PS			EVEBITDA			FY19-21E
					FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	EPS CAGR
Livestreaming														
Momo	MOMO US	6,857	USD	33.1	13.0	10.7	9.6	2.9	2.4	2.2	10.5	7.4	6.2	17%
YY	YY US	4,660	USD	57.6	14.5	10.7	7.3	1.3	1.0	0.9	9.9	6.8	4.5	41%
Inke	3700 HK	285	HKD	1.1	4.7	2.5	2.5	NA	NA	NA	NA	NA	NA	38%
HUYA	HUYA US	4,688	USD	21.5	51.9	29.2	19.4	4.1	3.0	2.5	59.5	23.7	14.7	64%
Average					21.0	13.3	9.7	2.8	2.2	1.8	26.6	12.6	8.5	40%
Entertainment														
Tencent Music	TME US	22,075	USD	13.5	34.8	26.4	19.1	6.1	4.6	3.6	30.8	21.2	15.0	35%
iQiyi	IQ US	11,698	USD	16.1	NA	NA	NA	2.8	2.3	2.0	14.0	10.8	6.7	-41%
Match	MTCH US	20,104	USD	71.6	37.2	31.5	25.5	9.7	8.3	7.1	27.4	22.3	18.1	21%
Bilibili	BILI US	4,699	USD	14.4	NA	NA	72.3	5.0	3.4	2.6	NA	130.4	22.5	NA
Average					36.0	29.0	39.0	5.9	4.7	3.8	24.0	46.2	15.6	5%
Total Average					26.0	18.5	22.2	4.6	3.6	3.0	25.3	31.8	12.5	27%

Source: Bloomberg

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Revenue</b>	<b>8,718</b>	<b>13,995</b>	<b>16,544</b>	<b>19,119</b>	<b>22,050</b>
Live streaming	7,291	11,198	12,234	13,434	14,907
VAS	682	1,946	3,864	5,305	6,674
Mobile game	462	442	304	227	262
Marketing	277	221	117	129	178
Other services	5	189	26	24	30
<b>COGS</b>	<b>(4,280)</b>	<b>(7,464)</b>	<b>(8,362)</b>	<b>(9,646)</b>	<b>(10,997)</b>
<b>Gross profit</b>	<b>4,437</b>	<b>6,531</b>	<b>8,182</b>	<b>9,473</b>	<b>11,053</b>
S&M	(1,377)	(1,766)	(2,219)	(2,288)	(2,746)
Admin. Exp.	(221)	(310)	(386)	(412)	(460)
R&D	(279)	(677)	(781)	(860)	(991)
Others	(328)	(603)	(1,430)	(765)	(882)
<b>Operating profit</b>	<b>2,386</b>	<b>3,440</b>	<b>3,583</b>	<b>5,230</b>	<b>6,056</b>
Financial Cost	143	225	317	176	373
Associates	39	51	14	25	25
<b>Pre-tax Income</b>	<b>2,568</b>	<b>3,716</b>	<b>3,915</b>	<b>5,431</b>	<b>6,454</b>
Income Tax	(436)	(735)	(1,027)	(1,086)	(1,291)
MI	4	28	5	3	3
Net profit	2,136	3,009	2,850	4,348	5,166
<b>Adj. net profit</b>	<b>2,464</b>	<b>3,611</b>	<b>4,279</b>	<b>5,113</b>	<b>6,048</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Net income</b>	<b>2,132</b>	<b>2,981</b>	<b>2,888</b>	<b>4,345</b>	<b>5,163</b>
D&A	82	250	336	347	376
Change in WC	448	447	41	(33)	141
Others	236	328	603	1,430	765
<b>Operating CF</b>	<b>1,515</b>	<b>2,991</b>	<b>4,280</b>	<b>4,695</b>	<b>5,424</b>
Capex	(260)	(275)	(211)	(215)	(244)
Associates	-	-	-	-	-
Others	(112)	(11,789)	(1,902)	(156)	(156)
<b>Investing CF</b>	<b>(372)</b>	<b>(12,064)</b>	<b>(2,113)</b>	<b>(371)</b>	<b>(400)</b>
Equity raised	2	5,172	(5)	-	-
Change of Debts	-	-	-	-	-
Others	222	313	(2,130)	(4,196)	(5,019)
<b>Financing CF</b>	<b>224</b>	<b>5,485</b>	<b>(2,135)</b>	<b>(4,196)</b>	<b>(5,019)</b>
<b>Net change in cash</b>	<b>2,843</b>	<b>(2,300)</b>	<b>447</b>	<b>857</b>	<b>1,143</b>
Cash (beg of yr)	1,703	4,752	2,455	2,873	3,730
FX	-	-	-	-	-
<b>Cash (end of yr)</b>	<b>4,546</b>	<b>2,452</b>	<b>2,902</b>	<b>3,730</b>	<b>4,874</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Non-current assets</b>	<b>737</b>	<b>6,275</b>	<b>6,173</b>	<b>6,197</b>	<b>6,220</b>
Fixed asset	276	412	441	465	489
Associates	288	269	280	291	301
Intangible assets	-	-	-	-	-
Others	173	4,826	5,257	5,257	5,257
<b>Current assets</b>	<b>7,734</b>	<b>12,633</b>	<b>14,431</b>	<b>15,291</b>	<b>16,455</b>
Cash	4,473	2,468	2,873	3,730	4,874
Deposit over 3 months	2,432	8,825	10,625	10,625	10,625
Account receivable	258	720	308	311	331
Others	572	621	625	625	625
<b>Current liabilities</b>	<b>1,692</b>	<b>2,696</b>	<b>2,323</b>	<b>2,293</b>	<b>2,455</b>
Borrowings	-	-	-	-	-
Account payable	485	718	866	838	897
Tax payable	-	-	-	-	-
Others	1,207	1,978	1,457	1,455	1,558
<b>NC liabilities</b>	<b>27</b>	<b>5,160</b>	<b>5,128</b>	<b>5,128</b>	<b>5,128</b>
Borrowings	-	-	-	-	-
Others	15	5,160	5,128	5,128	5,128
MI	-	-	-	-	-
Total net assets	6,752	11,023	13,153	14,067	15,093
<b>Shareholders' equity</b>	<b>6,752</b>	<b>11,023</b>	<b>13,153</b>	<b>14,067</b>	<b>15,093</b>

### Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Sales mix (%)</b>					
Live streaming	83.6	80.0	73.9	70.3	67.6
VAS	7.8	13.9	23.4	27.7	30.3
Mobile game	5.3	3.2	1.8	1.2	1.2
Mobile marketing	3.2	1.6	0.7	0.7	0.8
Other services	0.1	1.3	0.2	0.1	0.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Growth rate (%)</b>					
Revenue	138.3	53.6	19.5	15.6	15.3
Gross profit	114.4	40.8	26.6	15.8	16.7
EBIT	149.8	37.9	5.3	46.0	15.8
Net profit	110.6	40.2	19.8	19.5	18.3
<b>P&amp;L ratios (%)</b>					
OPM	27.4	24.6	21.7	27.4	27.5
Pre-tax margin	29.5	26.5	23.7	28.4	29.3
Net margin	24.5	21.5	17.2	22.7	23.4
Tax rate	(17.0)	(19.8)	(26.2)	(20.0)	(20.0)
<b>Returns (%)</b>					
ROE	37.4	33.5	29.8	38.6	42.8
ROA	36.0	25.8	21.9	24.3	27.4
<b>Per share</b>					
EPS (RMB)	12.46	16.92	19.11	22.22	25.89
DPS (RMB)	0.00	4.30	0.00	0.00	0.00
BVPS (RMB)	34.60	49.70	59.53	63.37	67.32

Source: Company data, CMBIS estimates

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