

Huya (HUYA US)

Fundamentals to bottom out

Huya's 1Q24 results beat on margin, with topline/bottom line 1%/84% above consensus. Looking into 2Q24E, we expect revenue to achieve 5% QoQ growth, in which livestreaming would bottom out and others revenue +25% QoQ. We are positive on Huya's game-related business monetization and expect upside from multiple titles cooperating with Tencent (e.g. DNF Mobile). We are more bullish on Huya's profitability (revising FY24E profit up to RMB254mn, vs. prior of RMB132mn), supported by enhanced monetization and better efficiency. To reflect enhanced profitability, we slightly raised its adj. NPM by 0.2ppts-1.9ppts in FY24-26E. Our DCF-based TP was unchanged at US\$6.8

- **1Q24 results beat on margin.** 1Q24 revenue declined 23% YoY, -2% QoQ (1% above consensus), in which livestreaming -32% YoY and others +173% YoY. Livestreaming segment was largely in line, with proactive business adjustments. Game-related services, advertising and other revenues surged by 173% (31% above our estimates), on rising game advertising & distribution services and in-game item sales. 1Q24 achieved adj. net profit at RMB92mn, 84% above consensus, backed by higher GPM (declining revenue sharing fees and content costs) and prudent opex control. By 1Q24, Huya repurchased US\$48.5mn of shares.
- **Livestreaming to bottom out, with stronger game business monetization.** For 2Q24E, we expect MAU and paying users to achieve sequential growth, thanks to Tencent's traffic synergies and tournaments season. 2Q24E revenue would grow at low to mid-single digit QoQ, in our estimates. We see high visibility for livestreaming to bottom out (forecasting livestreaming +1% QoQ in 2Q24E), with competition landscape to pull back and cooperation with short video platforms. Game-related services, advertising and other revenues was estimated to grow 25% QoQ in 2Q24E, backed by stronger game monetization. Apart from Honor of Kings (HoK) 《王者荣耀》 and DreamStar 《元梦之星》, we expect Huya to cooperate with Tencent with more titles (e.g. DNF Mobile). For the bottom line, we expect adj. net profit at RMB105mn in 2Q24E, in which GPM would improve QoQ and non-GAAP opex may keep stable. We are more positive on Huya's profitability (revising FY24E profit up to RMB254mn, vs. prior of RMB132mn), supported by enhanced monetization and better efficiency.
- **Maintain BUY.** To reflect enhanced profitability, we slightly raised its adj. NPM by 0.2ppts-1.9ppts in FY24-26E. Our DCF-based TP was unchanged at US\$6.8. Further game monetization would boost its re-rating ahead

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	9,264	6,994	6,727	7,357	7,834
YoY growth (%)	(18.4)	(24.5)	(3.8)	9.4	6.5
Adjusted net profit (RMB mn)	(238.3)	119.1	253.7	369.6	411.7
YoY growth (%)	NA	NA	113.0	47.7	11.4
EPS (Adjusted) (RMB)	(0.99)	0.49	1.03	1.47	1.61
Consensus EPS (RMB)	NA	NA	0.76	1.42	1.96
P/S (x)	0.9	1.2	1.2	1.1	1.1
P/E (x)	NA	70.6	33.7	23.5	21.4
ROE (%)	(2.2)	(1.1)	2.3	3.2	3.5

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$6.8
(Previous TP)	US\$6.8)
Up/Downside	44.5%
Current Price	US\$4.73

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Stock Data

Mkt Cap (US\$ mn)	1,149.4
Avg 3 mths t/o (US\$ mn)	3.5
52w High/Low (US\$)	5.10/2.16
Total Issued Shares (mn)	243.0

Source: FactSet

Shareholding Structure

Morgan Stanley	16.9%
Teachers Insurance & Annuity	8.7%
Asso of Ame	

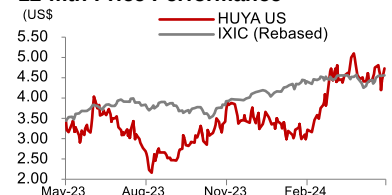
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	3.5%	2.2%
3-mth	52.1%	47.2%
6-mth	28.5%	10.5%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: 1Q24 financial review

RMB mn	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	QoQ	YoY	Consensus	Diff %
Revenue	2,976	2,809	2,465	2,275	2,379	2,119	1,963	1,821	1,648	1,530	1,504	-2%	-23%	1,486	1%
Gross profit	504	1	334	219	342	(237)	269	273	228	15	221	1350%	-18%	191	15%
Net profit	524	(313)	(3)	(19)	60	(481)	40	23	12	(275)	71	NA	79%	(38)	-287%
Adj. net profit	180	(241.7)	47	6	106	(440)	85	115	103	(190)	92	NA	9%	50	84%
Adj. EPS (RMB)	0.75	(1.00)	0.19	0.02	0.44	(1.81)	0.35	0.47	0.42	(0.79)	0.39	NA	12%	0.19	111%
Margin (%)															
Gross margin	16.9%	0.0%	13.5%	9.6%	14.4%	-11.2%	13.2%	15.0%	13.9%	1.0%	14.7%			12.9%	
Operating margin	5.2%	-13.8%	-0.1%	-2.5%	2.4%	-23.5%	-0.5%	-0.1%	-1.1%	-20.7%	-2.6%			-11.0%	
Adj. net margin	6.0%	-8.6%	1.9%	0.3%	4.5%	-20.8%	4.3%	6.3%	6.3%	-12.4%	6.1%			3.4%	
Growth (%)															
Revenue (YoY)	5.7%	-6.1%	-5.4%	-23.2%	-20.1%	-24.5%	-20.4%	-19.9%	-30.7%	-27.8%	-23.4%			-24.3%	
Revenue (QoQ)	0.4%	-5.6%	-12.3%	-7.7%	4.5%	-10.9%	-7.4%	-7.2%	-9.5%	-7.2%	-1.7%			-2.9%	
Gross profit	-18.8%	-99.8%	-35.1%	-62.3%	-32.1%	NA	-19.3%	24.6%	-33.3%	-106.4%	-18.0%			-28.9%	
Adj. net profit	-50.2%	NA	-82.5%	-97.7%	-41.1%	NA	82.6%	1860.3%	-2.6%	NA	8.7%			-40.8%	

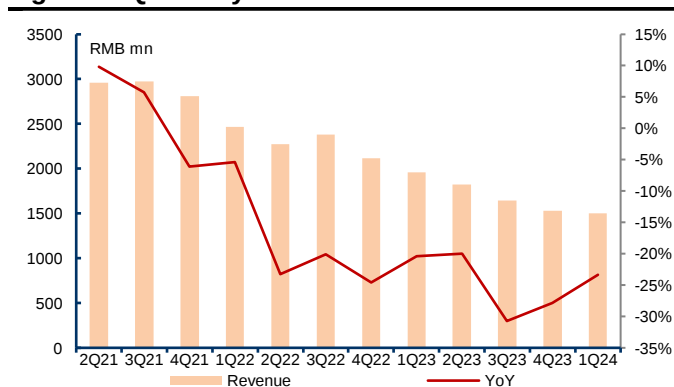
Source: Company data, Bloomberg

Figure 2: 1Q24 revenue breakdown

	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	QoQ	YoY
Revenue (RMB mn)	2,976	2,809	2,465	2,275	2,379	2,119	1,963	1,821	1,648	1,530	1,504	-1.7%	-23.4%
Live broadcasting	2,602	2,613	2,152	2,052	2,017	1,975	1,860	1,716	1,532	1,343	1,260	-6.2%	-32.2%
Others	374	196	313	223	361	144	89	106	116	186	244	30.7%	172.7%

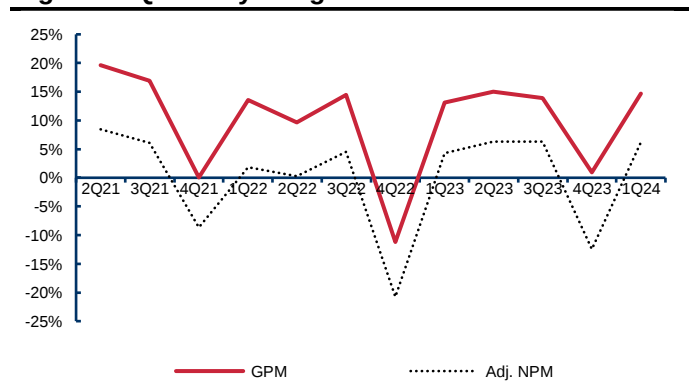
Source: Company data

Figure 3: Quarterly revenue



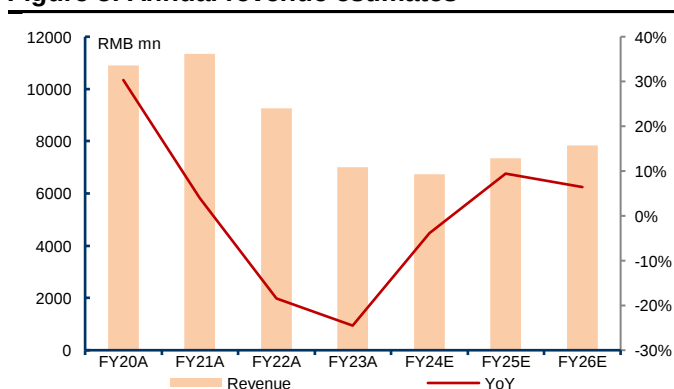
Source: Company data, CMBIGM

Figure 4: Quarterly margin



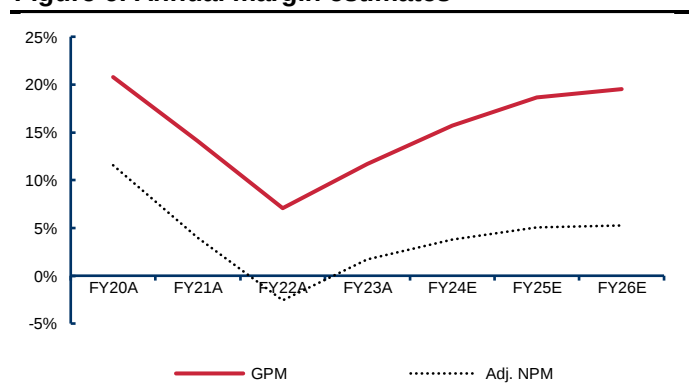
Source: Company data, CMBIGM

Figure 5: Annual revenue estimates



Source: Company data, CMBIGM estimates

Figure 6: Annual margin estimates



Source: Company data, CMBIGM estimates

Figure 7: CMBIGM estimates vs. consensus

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	6,727	7,357	7,834	6,744	7,298	7,447	-0.3%	0.8%	5.2%
Gross profit	1,058	1,373	1,529	908	1,191	1,364	16.5%	15.3%	12.0%
Operating profit	(12)	228	317	(174)	52	204	NA	NA	55.2%
Adj. net profit	254	370	412	188	339	460	34.7%	9.1%	-10.5%
EPS (RMB)	1.03	1.47	1.61	0.76	1.42	1.96	35.1%	3.6%	-17.7%
Gross margin	15.7%	18.7%	19.5%	13.5%	16.3%	18.3%	+2.3ppts	+2.3ppts	+1.2ppts
Operating margin	-0.2%	3.1%	4.0%	-2.6%	0.7%	2.7%	+2.4ppts	+2.4ppts	+1.3ppts
Net margin	3.8%	5.0%	5.3%	2.8%	4.6%	6.2%	+1.0ppts	+0.4ppts	-0.9ppts

Source: Company data, Bloomberg, CMBIGM estimates

Figure 8: Earnings revision

RMB mn, Dec-YE	CMBIGM			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	6,727	7,357	7,834	7,001	7,724	8,264	-3.9%	-4.7%	-5.2%
Gross profit	1,058	1,373	1,529	1,083	1,477	1,622	-2.4%	-7.0%	-5.8%
Operating profit	(12)	228	317	(54)	234	304	NA	-2.3%	4.3%
Adj. net profit	254	370	412	132	369	411	91.7%	0.1%	0.2%
EPS (RMB)	1.03	1.47	1.61	0.53	1.47	1.61	91.7%	0.1%	0.2%
Gross margin	15.7%	18.7%	19.5%	15.5%	19.1%	19.6%	+0.2ppts	-0.5ppts	-0.1ppts
Operating margin	-0.2%	3.1%	4.0%	-0.8%	3.0%	3.7%	+0.6ppts	+0.1ppts	+0.4ppts
Net margin	3.8%	5.0%	5.3%	1.9%	4.8%	5.0%	+1.9ppts	+0.2ppts	+0.3ppts

Source: Company data, CMBIGM estimates

Figure 9: DCF valuation

DCF valuation (RMB mn)									
	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	(12)	228	317	339	358	374	387	403	416
Tax	(34)	(49)	(55)	(61)	(64)	(67)	(70)	(73)	(75)
D&A	151	166	182	184	186	188	190	191	193
Working capital	(289)	57	55	49	44	40	36	32	29
CAPEX	(66)	(69)	(73)	(77)	(80)	(84)	(89)	(93)	(98)
FCF	(251)	332	426	435	443	450	454	461	466
FCF Growth	NA	NA	28%	2%	2%	1%	1%	1%	1%
Terminal Value									3,877
PV (FCF+ Terminal Value)	(251)	291	326	291	260	231	204	181	1,496

Assumptions	
WACC	14.2%
Tax rate	20.0%
Risk free rate	3.6%
Cost of debt	0.0%
Beta	1.30
Market risk return	11.8%
Terminal growth rate	2.0%

Equity Value	
PV	2,749
minus: Net cash	(9,377)
minus: Minority Interest	0
Equity Value	12,126
Shares (mn)	243
Target Price (US\$) based on DCF	6.8

		WACC				
		12.2%	13.2%	14.2%	15.2%	16.2%
Growth	0.5%	7.1	6.9	6.7	6.6	6.5
	1.0%	7.1	6.9	6.8	6.6	6.5
	1.5%	7.1	7.0	6.8	6.7	6.6
	2.0%	7.2	7.0	6.8	6.7	6.6
	2.5%	7.3	7.0	6.9	6.7	6.6
	3.0%	7.3	7.1	6.9	6.8	6.6
	3.5%	7.4	7.2	7.0	6.8	6.6

Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	11,351	9,264	6,994	6,727	7,357	7,834
Cost of goods sold	(9,751)	(8,610)	(6,179)	(5,670)	(5,984)	(6,305)
Gross profit	1,600	655	815	1,058	1,373	1,529
Operating expenses	(1,905)	(1,484)	(1,340)	(1,225)	(1,306)	(1,378)
Selling expense	(760)	(483)	(441)	(393)	(467)	(525)
Admin expense	(327)	(320)	(321)	(302)	(286)	(277)
R&D expense	(819)	(680)	(579)	(530)	(553)	(577)
Operating profit	(30)	(663)	(444)	(100)	133	215
Other income	275	166	81	68	65	65
Gain/loss on financial assets at FVTPL	44	8	0	0	0	0
Interest income	247	298	480	300	191	150
Interest expense	0	0	0	0	0	0
Pre-tax profit	260	(414)	(191)	200	324	365
Income tax	(55)	(28)	(13)	(34)	(49)	(55)
Net profit	583	(443)	(205)	166	274	310
Adjusted net profit	454	(238)	119	254	370	412

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	11,916	10,454	8,134	10,145	10,593	11,088
Cash & equivalents	1,791	655	512	2,526	2,968	3,458
Account receivables	88	76	64	62	68	72
ST bank deposits	9,168	9,021	6,851	6,851	6,851	6,851
Other current assets	869	701	706	706	706	706
Non-current assets	1,339	3,292	4,774	1,756	1,740	1,716
PP&E	80	201	327	307	283	252
Deferred income tax	20	0	0	0	0	0
Intangibles	63	84	58	162	174	184
Other non-current assets	(632)	(2,876)	(4,452)	(1,519)	(1,491)	(1,445)
Total assets	13,255	13,746	12,924	11,901	12,333	12,804
Current liabilities	2,576	2,201	2,162	1,870	1,932	1,991
Short-term borrowings	1,845	1,592	1,475	1,171	1,242	1,309
Account payables	13	23	15	14	14	15
Tax payable	0	0	0	0	0	0
Other current liabilities	718	586	672	685	676	668
Non-current liabilities	169	128	138	138	138	138
Deferred income	119	73	48	48	48	48
Other non-current liabilities	50	55	90	90	90	90
Total liabilities	2,745	2,329	2,300	2,008	2,071	2,130
Capital surplus	11,764	11,923	12,000	12,088	12,183	12,285
Total shareholders equity	10,510	10,843	10,625	11,085	11,454	11,866

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	583	(443)	(205)	166	274	310
Depreciation & amortization	64	71	78	86	94	104
Tax paid	(51)	23	21	0	0	0
Change in working capital	(17)	12	12	2	(6)	(4)
Others	660	740	(387)	(244)	(247)	183
Net cash from operations	1,240	403	(481)	10	115	592
Investing						
Capital expenditure	(57)	(60)	(63)	(66)	(69)	(73)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Net proceeds from disposal of short-term investments	(2,377)	(666)	2,167	0	0	0
Others	(67)	(70)	(74)	(77)	(81)	(85)
Net cash from investing	(2,501)	(796)	2,031	(143)	(151)	(158)
Financing						
Proceeds from share issues	0	0	0	0	0	0
Others	595	0	0	0	0	0
Net cash from financing	595	0	0	0	0	0
Net change in cash						
Cash at the beginning of the year	3,294	1,791	513	2,554	2,526	2,968
Exchange difference	0	0	0	0	0	0
Others	0	0	0	0	0	0
Cash at the end of the year	1,791	513	2,554	2,526	2,968	3,458
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	4.0%	(18.4%)	(24.5%)	(3.8%)	9.4%	6.5%
Gross profit	(29.4%)	(59.1%)	24.5%	29.7%	29.9%	11.3%
Operating profit	na	na	na	na	na	62.2%
Net profit	(34.0%)	na	na	na	64.8%	13.1%
Adj. net profit	(64.0%)	na	na	113.0%	45.7%	11.4%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	14.1%	7.1%	11.7%	15.7%	18.7%	19.5%
Operating margin	(0.3%)	(7.2%)	(6.3%)	(1.5%)	1.8%	2.7%
Adj. net profit margin	4.0%	(2.6%)	1.7%	3.8%	5.0%	5.3%
Return on equity (ROE)	5.8%	(4.1%)	(1.9%)	1.5%	2.4%	2.7%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	0.0	0.1	0.1	(0.1)	(0.2)	(0.2)
Current ratio (x)	4.6	4.7	3.8	5.4	5.5	5.6
Receivable turnover days	2.6	3.2	3.7	3.4	3.2	3.3
Payable turnover days	0.4	0.7	1.1	0.9	0.9	0.9
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	14.0	na	na	50.9	31.4	28.2
P/E (diluted)	18.2	na	70.6	33.7	23.5	21.4
P/B	0.8	0.8	0.8	0.8	0.8	0.7

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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