

# YY (YY US)

## Solid 3Q19E on track

We expect YY to deliver solid 3Q19E results in Nov. We forecast its topline to grow 64% YoY in 3Q19E, and bottom line to decline 40% YoY, in line with consensus. We view its upcoming results as positive, coupled with user sequential growth. Overseas expansion performed well, but investors still digest its competition landscape and TAM. We keep our financial forecasts unchanged. Maintain BUY with unchanged TP of **US\$74**. Valuation at 10.6x FY20E P/E is attractive.

- **Expecting solid 3Q19E.** We expect YY's revenue to grow 64% YoY to RMB6.7bn in 3Q19E, and adj. net income at RMB469mn, largely in line with consensus. We view its upcoming result as positive, on both solid financials and user metrics. Excluding Huya, YY Live & Bigo's 3Q19E revenue was estimated to accelerate to 60% YoY (vs. 57% YoY in 2Q19).
- **YY Core on track; Bigo strong momentum to continue.** We forecast YY Core revenue to grow 10% YoY in 3Q19E, in which Hago accounted for less than 2% of Bigo Core revenue. Both YY Core and Bigo might see user sequential growth in 3Q19E, in our estimates. We keep confident on its overseas monetization potential, mainly on: 1) paying ratio still far lower than industry average, despite already-high ARPU; and 2) IMO and Likee to explore diversified monetization in 2020E. We think market concern lies on its difficulty to cross check overseas data and global competition (e.g. Tiktok). We estimate Bigo to generate revenue of US\$667mn/US1.2bn in FY19/20E, with net loss of US\$126mn/US\$110mn.
- **Margin dilution priced in.** We expect 3Q19E adj. net margin to decline 1ppts QoQ to 7.1%, for 1) higher S&M/Rev ratio, due to heavier promotion for Likee; and 2) decreasing gross margin with increasing bandwidth for Bigo and higher revenue mix from Huya. In our estimates, YY Core's gross margin will decline 1ppts QoQ to 45%, and OPM down 3ppts QoQ to 22%. We believe near-term margin pressure from overseas expansion is well priced in, and the market eyes more on Bigo's narrowing loss trend.
- **Maintain BUY.** We keep our financial forecasts unchanged. Maintain BUY with unchanged TP of **US\$74**. Our TP is equivalent to **15x/13.6x** FY19/20E P/E, based on: 1) YY Live (7x FY19E P/E); 2) Huya (based on mkt cap) and 3) Bigo (2x FY19E P/S). The stock is now trading at **12.3x/10.6x** FY19/20E P/E. Valuation is attractive in our view.

### Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	11,595	15,764	24,088	30,975	36,075
YoY growth (%)	41.3	36.0	52.8	28.6	16.5
Net income (RMB mn)	2,751	3,196	2,283	2,645	4,084
Adj. EPS (RMB)	45.23	49.94	32.78	37.98	58.64
YoY growth (%)	63.6	10.4	(34.4)	15.9	54.4
P/E (x)	8.9	8.1	12.3	10.6	6.9
P/B (x)	3.4	1.7	1.9	1.8	1.6
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	30.6	9.9	6.4	6.8	11.6
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIS estimates

### BUY (Maintain)

Target Price	US\$73.9
(Previous TP	US\$73.9)
Up/Downside	+26.3%
Current Price	US\$58.5

### China Internet Sector

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### Stock Data

Mkt Cap (US\$ mn)	4,690
Avg 3 mths t/o (US\$ mn)	59.0
52w High/Low (US\$)	89/51
Total Issued Shares (mn)	63.5
Source: Bloomberg	

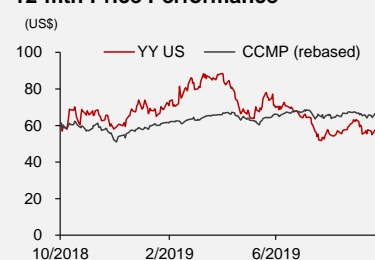
### Shareholding Structure

Lei Jun	15.5%
Capital Group	5.7%
Morgan Stanley	4.8%
Source: HKEx	

### Share Performance

	Absolute	Relative
1-mth	-8.9%	-8.5%
3-mth	-11.3%	-10.7%
6-mth	-34.4%	-35.1%
Source: Bloomberg		

### 12-mth Price Performance



Source: Bloomberg

### Auditor: PwC

### Related Reports

1. Margin pressure with global expansion – 15 Aug 2019
2. Guidance beat; Stepping up globalization – 31 May 2019
3. 4Q18 beat, with Bigo's acquisition settled – 6 Mar 2019

**Figure 1: 3Q19E financial preview**

RMB mn	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19E	QoQ	YoY	Consensus	Diff %
Revenue	3,249	3,773	4,100	4,641	4,781	6,295	6,702	6.5%	63.4%	6,711	0%
Operating profit	596	714	611	719	474	72	34	-52.8%	-94.4%	37	-8%
Net profit	444	(137)	651	684	3,104	107	97	-9.3%	-85.1%	82	18%
Adj. net profit	700	810	787	836	654	520	469	-9.8%	-40.4%	468	0%
Adj. EPS (RMB)	10.96	12.69	12.07	12.86	9.32	5.14	5.59	8.8%	-53.7%	5.59	0%
<b>Margin (%)</b>											
Gross margin	38.0%	38.0%	38.0%	35.1%	33.9%	33.7%	32.7%			32.7%	
Operating margin	18.4%	18.9%	14.9%	15.5%	9.9%	1.1%	0.5%			0.6%	
Adj. net margin	21.5%	21.5%	19.2%	18.0%	13.7%	8.3%	7.0%			7.0%	
<b>Growth (%)</b>											
Revenue (YoY)	30.8%	44.6%	32.6%	28.0%	47.1%	66.8%	63.4%			63.7%	
Revenue (QoQ)	5.1%	16.1%	8.7%	13.2%	3.0%	31.7%	6.5%			6.6%	
Operating profit	-4.0%	19.1%	-7.6%	-12.5%	-20.6%	-89.9%	-94.4%			-93.9%	
Adj. net profit	16.9%	35.7%	23.1%	-11.9%	-6.6%	-35.9%	-40.4%			-40.6%	

Source: Company data, Bloomberg, CMBIS estimates

**Figure 2: Peers valuation**

Company	Ticker	Mkt cap (USD mn)	Currency	Price	PE			PS			EV/EBITDA			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

**Figure 3: SOTP valuation**

SOTP		Metrics		Multiple		Valuation
(Rmb mn)	Rev	Net profit		Shareholding		Valuation
YY Live	FY19 12,022	2,585		7x PE	100%	18,093
Huya	Based on Mkt cap: US\$4.65bn				41%	12,793
BIGO	FY19 4,605	NA		2x PS	100%	9,210
<b>Total</b>	<b>12,022</b>	<b>2,585</b>				<b>40,096</b>
Holding discount						20%
Equity Value (Rmb mn)						<b>32,077</b>
<b>Target Price (US\$)</b>						<b>73.9</b>

Source: Company data, CMBIS estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Revenue</b>	<b>11,595</b>	<b>15,764</b>	<b>24,088</b>	<b>30,975</b>	<b>36,075</b>
Live broadcasting	10,671	14,878	23,158	30,008	35,088
Others	924	886	930	968	987
<b>COGS</b>	<b>(7,026)</b>	<b>(10,017)</b>	<b>(15,838)</b>	<b>(20,429)</b>	<b>(23,720)</b>
<b>Gross profit</b>	<b>4,568</b>	<b>5,746</b>	<b>8,250</b>	<b>10,546</b>	<b>12,355</b>
S&M	(691)	(1,149)	(3,258)	(4,344)	(3,615)
Admin.Exp.	(545)	(883)	(1,373)	(1,704)	(1,804)
R&D	(782)	(1,192)	(2,391)	(3,075)	(3,581)
Others	149	118	169	145	144
<b>Operating profit</b>	<b>2,699</b>	<b>2,640</b>	<b>1,396</b>	<b>1,569</b>	<b>3,498</b>
Financial income	180	486	440	509	474
Other income	12	(590)	-	-	-
<b>Pre-tax Income</b>	<b>2,891</b>	<b>2,535</b>	<b>1,836</b>	<b>2,078</b>	<b>3,972</b>
Income Tax	(416)	(478)	(349)	(395)	(755)
MI	18	(465)	(149)	(253)	(547)
<b>Net profit</b>	<b>2,494</b>	<b>1,642</b>	<b>1,338</b>	<b>1,431</b>	<b>2,670</b>
<b>Adj. net profit</b>	<b>2,751</b>	<b>3,196</b>	<b>2,283</b>	<b>2,645</b>	<b>4,084</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Net income</b>	<b>2,494</b>	<b>1,642</b>	<b>1,338</b>	<b>1,431</b>	<b>2,670</b>
D&A	214	241	273	300	345
Change in WC	705	(108)	-	-	-
Income tax paid	(416)	(478)	(349)	(395)	(755)
Others	673	1,126	1,293	1,609	2,168
<b>Operating CF</b>	<b>3,670</b>	<b>2,423</b>	<b>2,556</b>	<b>2,945</b>	<b>4,428</b>
Capex	(328)	(447)	(682)	(878)	(1,022)
Associates	-	-	-	-	-
Others	(2,304)	(4,293)	-	-	-
<b>Investing CF</b>	<b>(2,632)</b>	<b>(4,739)</b>	<b>(682)</b>	<b>(878)</b>	<b>(1,022)</b>
Equity raised	-	5,846	-	-	-
Change of Debts	-	-	-	-	-
Others	-	-	-	-	-
<b>Financing CF</b>	<b>-</b>	<b>5,846</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net change in cash</b>	<b>1,038</b>	<b>3,530</b>	<b>1,874</b>	<b>2,067</b>	<b>3,406</b>
Cash (beg of yr)	1,580	2,618	6,147	8,021	10,088
FX	-	-	-	-	-
<b>Cash (end of yr)</b>	<b>2,618</b>	<b>6,147</b>	<b>8,021</b>	<b>10,088</b>	<b>13,495</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Non-current assets</b>	<b>4,329</b>	<b>8,278</b>	<b>6,269</b>	<b>6,269</b>	<b>6,269</b>
Fixed asset	1,017	1,296	1,296	1,296	1,296
Long-term investments	1,153	4,592	4,592	4,592	4,592
Intangible assets	37	75	75	75	75
Others	2,122	2,316	306	306	306
<b>Current assets</b>	<b>10,129</b>	<b>17,483</b>	<b>17,920</b>	<b>19,391</b>	<b>22,091</b>
Cash	2,617	6,004	8,021	10,088	13,495
Deposit over 3 months	6,000	7,327	8,488	7,892	7,185
Account receivable	376	1,217	1,217	1,217	1,217
Others	1,136	2,934	194	194	194
<b>Current liabilities</b>	<b>3,146</b>	<b>3,846</b>	<b>3,846</b>	<b>3,846</b>	<b>3,846</b>
Borrowings	588	-	-	-	-
Account payable	76	115	115	115	115
Tax payable	146	236	236	236	236
Accrued expenses	1,466	2,414	2,414	2,414	2,414
Other	869	1,082	1,082	1,082	1,082
<b>Non-current liabilities</b>	<b>75</b>	<b>119</b>	<b>168</b>	<b>208</b>	<b>237</b>
Convertible debt	7	-	-	-	-
Other long-term liabilities	69	119	168	208	237
MI	6	6	6	6	6
<b>Total net assets</b>	<b>11,238</b>	<b>21,796</b>	<b>20,175</b>	<b>21,606</b>	<b>24,276</b>
<b>Shareholders' equity</b>	<b>11,232</b>	<b>21,790</b>	<b>20,169</b>	<b>21,600</b>	<b>24,270</b>

### Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Sales mix (%)</b>					
Live broadcasting	92.0	94.4	96.1	96.9	97.3
Others	8.0	5.6	3.9	3.1	2.7
<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	41.3	36.0	52.8	28.6	16.5
Gross profit	47.3	25.8	43.6	27.8	17.1
EBIT	50.4	(2.2)	(47.1)	12.4	122.9
Net profit	63.6	(34.1)	(18.5)	6.9	86.6
<b>P&amp;L ratios (%)</b>					
Operating margin	23.3	16.7	5.8	5.1	9.7
Pre-tax margin	24.9	16.1	7.6	6.7	11.0
Adj. net margin	23.7	20.3	9.5	8.5	11.3
Effective tax rate	(14.4)	(18.8)	(19.0)	(19.0)	(19.0)
<b>Returns (%)</b>					
ROE	30.6	9.9	6.4	6.8	11.6
ROA	20.6	8.2	5.4	5.7	9.9
<b>Per share</b>					
EPS (RMB)	45.2	49.9	32.8	38.0	58.6
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	184.8	358.4	331.8	355.3	399.2

Source: Company data, CMBIS estimates

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