

JOYY Inc (YY US)

Riding on Bigo's solid recovery

We are positive on JOYY's fundamental improvement and decent shareholder return, backed by Bigo's continuous recovery and margin enhancement. In 3Q23, Bigo achieved the first YoY positive growth within six quarters. After its upbeat 3Q23, we expect Bigo's recovery pace to continue (forecasting rev +1.2% YoY in 4Q23E), supported by solid recovery in developed markets. Halo biz adjustment might dampen 4Q23E topline, but is well acceptable, in our view. We forecast adj. net profit of the Group at US\$48mn in 4Q23E, with margin to be slightly diluted by year-end campaigns and KOL incentives. To factor in Halo biz adjustment, we trim topline by 1.4%-3.7% in FY23-25E, but raise earnings by 27%-36% to reflect better cost control. Maintain BUY with TP at US\$50.5.

■ **Well-performing 3Q23 with decent shareholder return.** JOYY delivered upbeat 3Q23 results with revenue +3.6% QoQ (-3.4% YoY), 2%/2% ahead of consensus/our estimates. Bigo achieved the first YoY positive growth (rev +2.2% YoY, with paying users +6.6% YoY) in six quarters, backed by solid growth in the US and Europe and stabilization of the Middle East. Non-GAAP NP was at US\$81mn (non-GAAP NPM at 14.3% vs. 13.1% in 3Q22), surpassing consensus/our estimates by 57%/42%, mainly on better-than-expected topline, margin expansion in Bigo and cost control. In 9M23, JOYY returned US\$355.4mn (155.6% of non-GAAP NP during the same period) to shareholders through dividends and share buybacks. Mgmt. will continue to repurchase shares actively in 4Q23 under a renewable share purchase program of US\$530mn until Nov 2024.

■ **Bigo in solid recovery mode, despite soft guidance on Halo adjustment.** Despite global macro uncertainty, we are positive on JOYY's high-quality growth and global positioning after proactive adjustments on non-core operations. We forecast 4Q23 rev -8% YoY, 5% below consensus, mainly on Halo biz adjustment (~US\$10mn decline per quarter). Bigo rev should continue its positive growth in 4Q23E (forecasting +1.2% YoY), backed by solid recovery in developed markets. Grossing might see sequential growth in Dec on annual Gala. For other segments, we forecast total other rev at RMB74mn in 4Q23E (stable QoQ). GPM/OPM might decrease QoQ in 4Q23E due to year-end campaigns and KOL incentives (forecasting Bigo non-GAAP OPM -2ppts QoQ). Looking into 2024E, we forecast rev +1.5% YoY, with solid recovery of Bigo, with margin to stay stable YoY.

■ **Maintain BUY.** To factor in Halo biz adjustment, we trim topline by 1.4%-3.7% in FY23-25E, but raise earnings by 27%-36% to reflect better cost control. Maintain BUY with an unchanged SOTP-based TP of US\$50.5, by assigning 6x FY23E P/E to Bigo Live.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (US\$ mn)	2,619	2,412	2,257	2,290	2,338
YoY growth (%)	36.5	(7.9)	(6.4)	1.5	2.1
Adjusted net profit (US\$ mn)	109	199	277	281	312
Diluted EPS (US\$)	1.4	2.8	3.8	3.9	4.3
YoY growth (%)	NA	83.0	38.9	1.6	10.8
Consensus EPS (US\$)	NA	NA	2.8	3.0	3.5
P/S (x)	1.5	1.0	1.1	1.0	1.0
P/E (x)	NA	15.9	11.7	11.6	10.5
ROE (%)	1.8	3.7	4.8	4.5	4.8
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$50.50
(Previous TP)	US\$50.50)
Up/Downside	31.3%
Current Price	US\$38.47

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Stock Data

Mkt Cap (US\$ mn)	3,847.0
Avg 3 mths t/o (US\$ mn)	9.2
52w High/Low (US\$)	42.47/24.80
Total Issued Shares (mn)	100.0
Source: FactSet	

Shareholding Structure

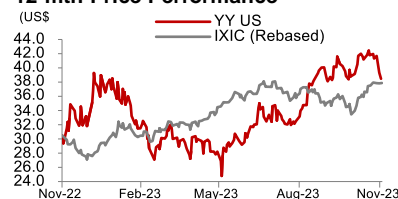
FMR	5.9%
BlackRock	5.0%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	-1.2%	-10.9%
3-mth	12.1%	10.3%
6-mth	55.1%	40.7%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: 3Q23 financial review

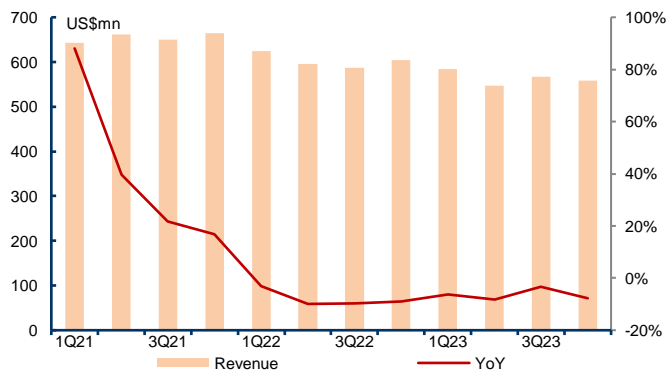
US\$ mn	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	QoQ	YoY	Consensus	Diff %	CMBI	Diff%
Revenue	664	624	596	587	605	584	547	567	3.6%	-3.4%	556	2%	558	2%
Gross profit	224	201	218	220	212	205	198	209	5.8%	-5.0%	197	6%	198	6%
Operating profit	61	6	39	20	(14)	3	9	12	27.7%	-39.2%	22	-45%	1	na
Adj. net profit	98	21	51	77	50	50	97	81	-16.6%	5.5%	52	57%	57	42%
Adj. EPS (US\$)	1.35	0.28	0.71	0.94	0.49	0.62	1.21	1.08	-11.0%	15.4%	0.72	50%	0.72	49%
Margin (%)														
Gross margin	33.7%	32.2%	36.6%	37.5%	35.1%	35.1%	36.1%	36.9%			35.4%		32.9%	
Operating margin	9.1%	1.0%	6.5%	3.4%	-2.3%	0.4%	1.7%	2.1%			4.0%		-3.2%	
Adj. net margin	14.7%	3.3%	8.6%	13.1%	8.3%	8.5%	17.8%	14.3%			9.3%		6.1%	
Growth (%)														
Revenue (YoY)	16.8%	-3.0%	-9.9%	-9.8%	-8.9%	-6.4%	-8.2%	-3.4%			-6.7%		-10.3%	
Revenue (QoQ)	2.0%	-6.0%	-4.4%	-1.6%	3.1%	-3.5%	-6.2%	3.6%			-4.7%		-8.4%	
Operating profit	NA	NA	NA	NA	NA	NA	NA	NA			NA		NA	
Adj. net profit	NA	NA	NA	131.5%	-48.4%	142.4%	89.1%	5.5%			2.0%		-36.5%	

Source: Company data, Bloomberg, CMBIGM estimates

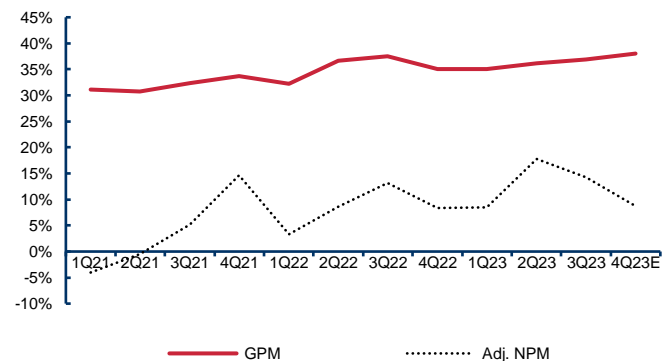
Figure 2: Revenue breakdown

US\$ mn	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	QoQ	YoY
Total revenue	664	624	596	587	605	584	547	567	3.6%	-3.4%
by segment										
Live broadcasting	621	590	565	543	527	520	477	496	3.9%	-8.7%
Others	43	34	31	44	77	63	70	71	1.3%	62.1%
by platform										
Bigo	576	535	503	483	476	468	471	494	4.9%	2.2%
All other	88	89	93	103	128	116	76	73	-4.3%	-29.4%

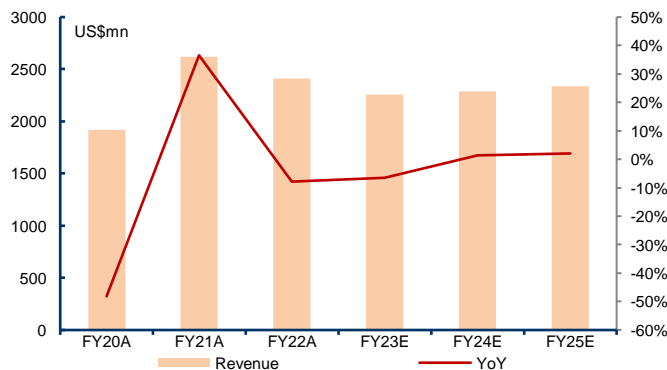
Source: Company data

Figure 3: Quarterly rev estimates

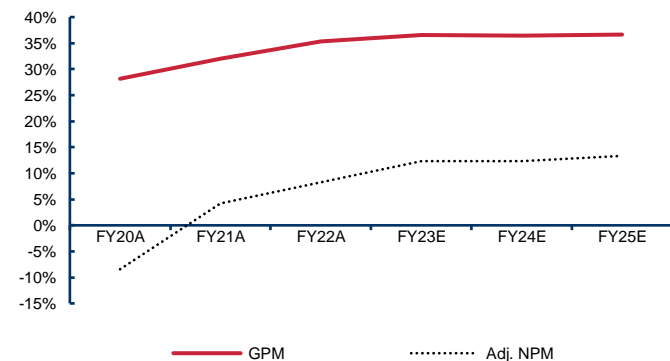
Source: Company data, CMBIGM estimates

Figure 4: Quarterly margin estimates

Source: Company data, CMBIGM estimates

Figure 5: Yearly rev estimates

Source: Company data, CMBIGM estimates

Figure 6: Yearly margin estimates

Source: Company data, CMBIGM estimates

Figure 7: CMBIGM estimates vs consensus

US\$ mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	2,257	2,290	2,338	2,262	2,393	2,594	-0.3%	-4.3%	-9.9%
Gross Profit	824	835	857	800	860	943	2.9%	-2.9%	-9.2%
Operating Profit	174	177	201	85	115	162	104.9%	52.9%	24.0%
Net profit	277	281	312	234	233	266	18.1%	20.9%	17.1%
Adj. EPS (RMB)	3.28	3.32	3.66	2.83	2.95	3.49	15.7%	12.5%	4.8%
Gross Margin	36.5%	36.5%	36.6%	35.4%	35.9%	36.4%	+1.1ppts	+0.5ppts	+0.3ppts
Operating Margin	7.7%	7.7%	8.6%	3.8%	4.8%	6.3%	+4.0ppts	+2.9ppts	+2.3ppts
Net Margin	12.3%	12.3%	13.3%	10.4%	9.7%	10.3%	+1.9ppts	+2.6ppts	+3.1ppts

Source: Bloomberg, CMBIGM estimates

Figure 8: Earnings revision

US\$ mn, Dec-YE	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	2,257	2,290	2,338	2,288	2,349	2,426	-1.4%	-2.5%	-3.7%
Gross Profit	824	835	857	813	848	880	1.4%	-1.6%	-2.7%
Operating Profit	174	177	201	150	158	185	15.8%	11.4%	8.6%
Net profit	277	281	312	204	212	246	35.7%	32.6%	26.8%
Adj. EPS (RMB)	3.28	3.32	3.66	2.42	2.50	2.89	35.7%	32.6%	26.8%
Gross Margin	36.5%	36.5%	36.6%	35.5%	36.1%	36.3%	+1.0ppts	+0.3ppts	+0.4ppts
Operating Margin	7.7%	7.7%	8.6%	6.6%	6.7%	7.6%	+1.1ppts	+1.0ppts	+1.0ppts
Net Margin	12.3%	12.3%	13.3%	8.9%	9.0%	10.1%	+3.4ppts	+3.3ppts	+3.2ppts

Source: CMBIGM estimates

Figure 9: SOTP valuation

SOTP		Metrics		Multiple	Valuation	
(US\$ mn)	Rev	Adj. NP		Shareholding	Valuation	
YY Live	Based on US\$1.9bn from Baidu (transaction valuation of US\$3.6bn)				100%	1,900
Bigo Live	FY23E	1,827	305	6x FY23E P/E	100%	1,830
Total						3,730
Net cash (less: US\$1.9bn received from Baidu)						1,900
Holding discount						30%
Equity Value (US\$ mn)						3,941
Target Price (US\$)						50.5

Source: Company data, CMBIGM estimates

Figure 10: Valuation comps

Company	Ticker	Mkt cap (USD mn)	Currency	Price	CMBI Rating	CMBI TP	PE			PS			FY23-25 EPS CAGR
							FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	
JOYY	YY US	2,433	USD	39	BUY	51	11.7	11.6	10.5	1.1	1.0	0.9	6%
Live Streaming													
Hello Inc	MOMO US	1,256	USD	7	HOLD	14	4.4	4.2	4.0	0.8	0.8	0.7	5%
Inke	3700 HK	211	HKD	1	NA	NA	3.8	3.5	3.1	0.2	0.2	0.2	11%
Douyu	DOYU US	247	USD	1	NA	NA	16.2	14.3	10.4	0.3	0.3	0.3	40%
Huya	HUYA US	802	USD	3	BUY	7	NA	45.0	16.7	0.8	0.9	0.8	149%
Average							8.1	7.3	8.6	0.5	0.5	0.5	8%
Pan-entertainment													
TME	TME US	14,415	USD	8	NA	NA	17.3	15.7	14.0	3.7	3.7	3.3	12%
iQIYI	IQ US	4,437	USD	5	BUY	9	13.0	10.0	8.1	1.0	0.9	0.9	27%
China Literature	772 HK	3,544	HKD	27	NA	NA	17.0	15.1	13.4	3.3	3.0	2.8	14%
Bilibili	BILI US	5,540	USD	13	BUY	24	NA	NA	43.9	1.7	1.5	1.3	NA
Kuaishou	1024 HK	31,707	HKD	57	BUY	97	25.9	15.7	10.5	2.0	1.7	1.5	58%
Zhihu	ZH US	634	USD	1	BUY	2	NA	NA	20.7	1.1	0.9	0.8	NA
Average							15.7	14.1	13.4	2.1	2.0	1.8	18%
Average							13.9	11.3	11.1	1.5	1.4	1.3	14%

Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
Revenue	1,918	2,619	2,412	2,257	2,290	2,338
Cost of goods sold	(1,378)	(1,781)	(1,559)	(1,433)	(1,455)	(1,481)
Gross profit	540	838	852	824	835	857
Operating expenses	(955)	(970)	(804)	(786)	(773)	(780)
Selling expense	(505)	(468)	(400)	(372)	(355)	(356)
Admin expense	(147)	(222)	(142)	(144)	(143)	(144)
R&D expense	(303)	(280)	(262)	(270)	(275)	(280)
Operating profit	(407)	(107)	51	57	61	87
Other income	8	25	18	19	0	0
Other expense	(76)	(14)	(13)	(18)	(18)	(18)
Gain/loss on financial assets at FVTPL	(6)	5	63	0	0	0
Other gains/(losses)	272	(24)	4	0	0	0
Pre-tax profit	14	(78)	635	199	203	237
Income tax	(28)	(26)	(35)	(34)	(34)	(35)
After tax profit	(14)	(103)	600	165	169	202
Minority interest	(7)	14	27	32	0	0
Net profit	1,369	(84)	125	197	169	202
Adjusted net profit	(162)	109	199	277	281	312
BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
Current assets	3,901	5,070	4,645	5,639	5,770	5,963
Cash & equivalents	1,756	2,134	1,518	2,582	2,708	2,895
Account receivables	143	114	118	110	112	114
Prepayment	103	214	236	221	224	229
ST bank deposits	1,357	1,604	2,361	2,361	2,361	2,361
Other current assets	542	1,004	412	364	364	364
Non-current assets	6,597	7,622	7,573	8,799	8,968	9,191
PP&E	150	150	150	150	150	150
Investment in JVs & assos	171	171	171	171	171	171
Intangibles	6	6	6	6	6	6
Goodwill	1,872	1,958	2,649	2,649	2,649	2,649
Other non-current assets	4,398	5,337	4,598	5,823	5,992	6,215
Current liabilities	944	2,512	3,072	2,969	2,934	2,922
Account payables	21	18	56	54	53	53
Tax payable	61	66	78	78	78	78
Other current liabilities	378	82	578	572	573	575
Accrued expenses	484	2,346	2,360	2,265	2,230	2,217
Non-current liabilities	837	980	497	475	475	475
Convertible bonds	779	924	401	401	401	401
Other non-current liabilities	58	56	96	73	74	74
Total liabilities	1,781	3,492	3,569	3,444	3,409	3,397
Capital surplus	3,317	3,247	3,278	3,314	3,349	3,382
Retained earnings	2,900	2,739	2,718	2,929	3,113	3,329
Other reserves	(18)	(69)	162	162	162	162
Total shareholders equity	6,308	5,594	5,270	6,172	6,391	6,640
Minority interest	5	34	233	218	203	189
Total equity and liabilities	6,314	5,628	5,503	6,391	6,594	6,829

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
Operating						
Profit before taxation	524	2,013	892	357	415	480
Depreciation & amortization	82	88	105	121	135	148
Tax paid	(4)	0	0	0	0	0
Change in working capital	(81)	(26)	12	14	(5)	(5)
Net cash from operations	(524)	(2,013)	(892)	(357)	(415)	(480)
Investing						
Capital expenditure	(160)	(158)	(163)	(168)	(173)	(178)
Acquisition of subsidiaries/ investments	(219)	0	0	0	0	0
Net proceeds from disposal of short-term investments	193	(705)	(172)	0	0	0
Others	1,016	(116)	(116)	(116)	(116)	(116)
Net cash from investing	830	(979)	(451)	(283)	(288)	(294)
Financing						
Proceeds from share issues	0	0	0	0	0	0
Share repurchases	(106)	(399)	0	0	0	0
Others	(173)	(325)	0	0	0	0
Net cash from financing	(279)	(724)	0	0	0	0
Net change in cash						
Cash at the beginning of the year	657	1,756	2,068	2,509	2,582	2,708
Exchange difference	(89)	0	0	0	0	0
Cash at the end of the year	1,850	2,068	2,509	2,582	2,708	2,895
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	(48.2%)	36.5%	(7.9%)	(6.4%)	1.5%	2.1%
Gross profit	(55.7%)	55.2%	1.7%	(3.3%)	1.3%	2.6%
Operating profit	na	na	na	12.2%	7.4%	42.8%
Net profit	176.9%	na	na	57.4%	(14.1%)	19.6%
Adj. net profit	na	na	83.0%	38.9%	1.6%	10.8%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	28.2%	32.0%	35.3%	36.5%	36.5%	36.6%
Operating margin	(21.2%)	(4.1%)	2.1%	2.5%	2.7%	3.7%
Adj. net profit margin	(8.4%)	4.2%	8.3%	12.3%	12.3%	13.3%
Return on equity (ROE)	24.5%	(1.4%)	2.3%	3.4%	2.7%	3.1%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Current ratio (x)	4.1	2.0	1.5	1.9	2.0	2.0
Receivable turnover days	24.1	17.9	17.6	18.5	17.7	17.7
Payable turnover days	5.2	4.0	8.7	14.0	13.4	13.0
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	4.3	na	19.9	14.1	16.5	13.8
P/E (diluted)	5.0	na	22.7	16.5	19.3	16.2
P/B	0.9	1.0	0.5	0.4	0.4	0.4

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

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