

Huya (HUYA US)

Reinvesting for growth

Huya delivered better-than-feared 3Q21 results, with revenue/ adj. net profit +6%/-50% YoY, -3%/10% vs. consensus. Mobile MAU +15% YoY to 85mn, and MPU rebounded QoQ to 6mn. As the Douyu merger terminated, Huya aims to focus on content investment, overseas biz, and video-lization. We expect 4Q21E rev -3% YoY, with flat user metrics. We expect FY22E rev +7% YoY, with adj. NPM at -2%. We trimmed our rev by 2%/9%/10% in FY21/22/23E to reflect domestic headwinds and cut OPM by 1-7% for content investment and user acquisition. Lowered TP to US\$11.

- Better-than-feared 3Q21, with paying users to rebound.** Huya 3Q21 rev/ adj. net profit +6%/-50% YoY to RMB3.0bn/180mn, -3%/+130% vs. consensus. Mobile MAU accelerated +15% YoY to 85mn. Huya MPU achieved sequential growth, up to 6mn in 3Q21 (from 5.6mn in 2Q21) with paying ratio at 7.1% (vs. 7.2% in 2Q21), while ARPPU -2% YoY to RMB434. By segment, Live streaming -2% YoY, and other rev +137% YoY due to licensing of content.
- Moderate 4Q21E ahead.** We expect rev -3% YoY in 4Q21E, in which livestreaming /Others -4%/+4% YoY. User metrics would be flat QoQ, given high base in 3Q21. Newly launched LoLM would bring new users, but offset by livestreaming & promotion limitation of games without licenses. We expect GPM to be negative, to factor in: 1) S11 tournament cost; 2) higher content cost for host incentives; and 3) seasonal operation and campaigns. Overall, we estimate adj. OPM at -15%.
- Expecting FY22E rev +7% YoY, with net loss position.** We expect Huya to increase content investment and S&M post Douyu-deal termination to reaccelerate rev growth. Looking into FY22E, we estimate FY22E MAU/ rev +6/7% YoY, with full-year GPM at 10% (2H22E GPM would be negative for seasonality). As such, we forecast bottom line at -RMB208mn, with NPM at -2%. Mgmt target overseas rev to double in FY22E (accounting for 6%-7% of total rev), with improving margin.
- Maintain BUY.** We trimmed our rev forecast by 2%/9%/10% and OPM by 1-7% in FY21/22/23E to reflect Huya's strategic focus on content investment and user acquisition. Cut TP to US\$11.

Earnings Summary

(YE 31 Dec)	FY19	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	8,375	10,914	11,435	12,198	13,046
YoY growth (%)	79.6	30.3	4.8	6.7	7.0
Adj. net income (RMB mn)	750	1,262	372	(208)	323
Adj. EPS (RMB)	3.23	5.29	1.52	(0.83)	1.26
YoY growth (%)	17	64	(71)	NA	NA
Consensus EPS (RMB)	NA	NA	3.31	6.13	7.62
P/E (x)	17.8	10.9	37.8	NA	45.6
P/S (x)	1.6	1.3	1.2	1.2	1.1
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	8.6	12.9	3.7	(2.1)	3.1
Net gearing (%)	Net	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	US\$11.0
(Previous TP)	US\$12.0)
Up/Downside	+22.9%
Current Price	US\$8.95

China Internet Sector

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Stock Data

Mkt Cap (US\$ mn)	1,987
Avg 3 mths t/o (US\$ mn)	28.62
52w High/Low (US\$)	36.33/ 7.52
Total Issued Shares (mn)	85

Source: Bloomberg

Shareholding Structure

Morgan Stanley	31.92%
Baillie Gifford	11.01%
Capital Group Cos	10.17%

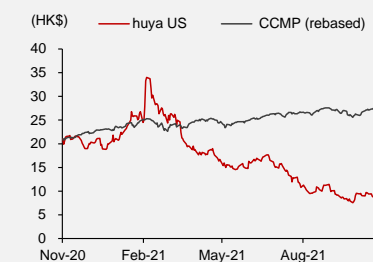
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-7.6%	-15.2%
3-mth	-22.3%	-27.8%
6-mth	-48.8%	-55.9%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

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Figure 1: 3Q21 financial review

RMB mn	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	QoQ	YoY	Consensus	Diff %
Revenue	1,631	2,010	2,265	2,467	2,412	2,697	2,815	2,990	2,605	2,962	2,976	0%	6%	3,026	-2%
Operating profit	28	68	64	102	133	181	223	187	162	182	83	-54%	-63%	8	945%
Net profit	63	122	123	160	171	207	253	253	186	186	524	182%	107%	(3)	NA
Adj. net profit	131	170	206	242	263	331	361	306	266	250	180	-28%	-50%	73	147%
Adj. EPS (RMB)	0.59	0.73	0.87	1.02	1.11	1.40	1.50	1.27	1.10	1.04	0.75	-28%	-50%	0.26	192%
Margin (%)															
Gross margin	16.8%	16.7%	17.9%	18.9%	19.7%	21.3%	22.0%	20.0%	19.7%	19.6%	16.9%			13.4%	
Operating margin	1.7%	3.4%	2.8%	4.1%	5.5%	6.7%	7.9%	6.3%	6.2%	6.1%	2.8%			0.3%	
Adj. net margin	8.0%	8.5%	9.1%	9.8%	10.9%	12.3%	12.8%	10.2%	10.2%	8.4%	6.1%			2.4%	
Growth (%)															
Revenue (YoY)	93.4%	93.6%	77.4%	64.0%	47.8%	34.2%	24.3%	21.2%	8.0%	9.8%	5.7%			7.5%	
Revenue (QoQ)	8.4%	23.2%	12.7%	8.9%	-2.3%	11.8%	4.4%	6.2%	-12.9%	13.7%	0.4%			2.1%	
Operating profit	0.2%	NA	NA	447.8%	372.5%	168.0%	249.0%	84.4%	21.6%	0.3%	-62.7%			-96.4%	
Adj. net profit	94.1%	-23.2%	70.5%	44.9%	100.2%	94.2%	75.0%	26.5%	1.1%	-24.4%	-50.2%			-79.8%	

Source: Company data, Bloomberg

Figure 2: Revenue breakdown

	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	QoQ	YoY
Revenue (RMB m)	1,631	2,010	2,265	2,467	2,412	2,697	2,815	2,990	2,605	2,962	2,976	0.4%	5.7%
Live broadcasting	1,552	1,921	2,156	2,346	2,274	2,565	2,657	2,815	2,392	2,579	2,602	0.9%	-2.1%
Others	79	89	109	121	137	132	158	175	213	383	374	-2.5%	137.1%

Source: Company data

Figure 3: CMBIS estimates vs consensus

RMB mn, Dec-YE	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	11,435	12,198	13,046	11,823	13,151	14,490	-3.3%	-7.2%	-10.0%
Gross Profit	1,546	1,189	1,525	1,719	1,813	2,402	-10.1%	-34.4%	-36.5%
Operating Profit	(109)	(960)	(401)	349	144	572	-131.2%	-768.2%	-170.2%
Adj. net profit	372	(208)	323	506	462	875	-26.5%	-145.0%	-63.0%
Adj. EPS (RMB)	1.52	(0.83)	1.26	2.06	2.11	4.07	-26.1%	-139.5%	-69.0%
Gross Margin	13.5%	9.7%	11.7%	14.5%	13.8%	16.6%	-1.0ppts	-4.0ppts	-4.9ppts
Operating Margin	-1.0%	-7.9%	-3.1%	3.0%	1.1%	3.9%	-3.9ppts	-9.0ppts	-7.0ppts
Adj. net margin	3.3%	-1.7%	2.5%	4.3%	3.5%	6.0%	-1.0ppts	-5.2ppts	-3.6ppts

Source: CMBIS estimates, Bloomberg

Figure 4: Earnings revision

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	11,435	12,198	13,046	11,629	13,342	14,409	-1.7%	-8.6%	-9.5%
Gross Profit	1,546	1,189	1,525	1,623	1,688	2,005	-4.8%	-29.6%	-23.9%
Operating Profit	(109)	(960)	(401)	(41)	(113)	55	NA	NA	NA
Adj. net profit	372	(208)	323	435	538	743	-14.5%	NA	-56.5%
EPS (RMB)	1.52	(0.83)	1.26	1.78	2.15	2.90	-14.4%	NA	-56.5%
Gross Margin	13.5%	9.7%	11.7%	14.0%	12.6%	13.9%	-0.5ppts	-2.9ppts	-2.2ppts
Operating Margin	-1.0%	-7.9%	-3.1%	-0.4%	-0.8%	0.4%	-0.6ppts	-7.1ppts	-3.5ppts
Net Margin	3.3%	-1.7%	2.5%	3.7%	4.0%	5.2%	-0.4ppts	-5.7ppts	-2.7ppts

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenues	8,375	10,914	11,435	12,198	13,046
Live broadcasting	7,976	10,312	10,283	10,940	11,596
Others	398	603	1,152	1,258	1,450
COGS	(6,893)	(8,646)	(9,889)	(11,009)	(11,521)
Gross profit	1,482	2,268	1,546	1,189	1,525
R&D	(509)	(734)	(808)	(913)	(1,001)
S&M	(438)	(558)	(614)	(984)	(661)
G&A	(353)	(445)	(427)	(458)	(483)
Other income	79	194	194	206	218
Operating profit	261	725	(109)	(960)	(401)
Fair value change	-	(8)	-	-	-
Interest income	304	313	200	352	396
Other income	1	2	-	-	0
Pre-tax Income	567	1,033	91	(607)	(5)
Income Tax	(96)	(177)	(56)	42	(52)
Net profit	468	884	63	(537)	(29)
Adj. net profit	750	1,262	372	(208)	323

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income	468	884	63	(537)	(29)
D&A	63	103	113	124	137
Change in WC	1,154	(162)	(407)	(330)	(380)
Others	260	415	280	301	324
Operating CF	1,945	1,240	49	(442)	52
Capex	(71)	(428)	(124)	(130)	(137)
Others	(3,614)	1,433	-	-	-
Investing CF	(3,685)	1,005	(124)	(130)	(137)
Preference shares	-	-	-	-	-
Common shares	2,111	-	-	-	-
Others	23	265	-	-	-
Financing CF	2,134	265	-	-	-
Net change in cash	394	2,510	(75)	(572)	(85)
Cash (beg of yr)	709	1,115	3,458	3,384	2,812
Fx effect	11	(166)	-	-	-
Cash (end of yr)	1,115	3,458	3,384	2,812	2,727

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	775	1,140	1,179	1,213	1,241
PP&E	97	95	87	77	62
Right-of-use assets	103	87	87	87	87
Intangible assets	45	63	81	97	112
Others	530	895	923	952	980
Current assets	10,592	11,271	11,365	10,797	10,718
Cash & restricted cash	1,115	3,458	3,549	2,977	2,892
Receivables	62	71	75	80	85
Short-term deposits	6,743	5,975	5,975	5,975	5,975
Other current asset	2,672	1,766	1,766	1,766	1,766
Current liabilities	2,447	2,385	1,981	1,656	1,281
Accounts payables	4	10	12	13	13
Deferred revenue	795	486	158	(211)	(623)
Accruals	1,460	1,707	1,629	1,672	1,710
Others	188	182	182	182	182
Non-current liabilities	235	249	249	249	249
Lease liabilities	70	58	58	58	58
Deferred revenue	165	178	178	178	178
Deferred tax liabilities	-	13	13	13	13
Shareholders' equity	8,685	9,777	10,149	9,941	10,264

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Live broadcasting	95.2	94.5	89.9	89.7	88.9
Others	4.8	5.5	10.1	10.3	11.1
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	79.6	30.3	4.8	6.7	7.0
Gross profit	103.1	53.0	(31.8)	NA	28.3
EBIT	880.3	177.4	NA	NA	(58.2)
Adj. net profit	62.7	68.2	(70.5)	NA	NA
P&L ratios (%)					
Operating margin	3.1	6.6	(1.0)	(7.9)	(3.1)
Pre-tax margin	6.8	9.5	0.8	(5.0)	(0.0)
Adj. net margin	9.0	11.6	3.3	(1.7)	2.5
Effective tax rate	(16.9)	(17.1)	(61.6)	(6.9)	971.5
Returns (%)					
ROE	8.6	12.9	3.7	(2.1)	3.1
ROA	6.6	10.2	3.0	(1.7)	2.7
Per share					
EPS (RMB)	3.2	5.3	1.5	(0.8)	1.3
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	37.4	41.0	41.5	39.7	40.1

Source: Company data, CMBIS estimates

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