

JOYY Inc. (YY US)

Moving into 2H23E recovery

JOYY delivered upbeat 4Q22 results, with rev -9% YoY (in line) and bottom line at US\$50mn (82% above consensus). 1Q23E rev guidance was 1% below consensus, on macro headwinds and soft seasonality. We forecast rev -9% YoY/-7% QoQ in 1Q23E (in which Bigo -5% QoQ), dragged by CNY & Ramadan disruptions and competition pressure. With rising paying users and Middle East stabilization, we expect Bigo to resume growth in 2H23E. Shoplevel's loss (US\$10mn per month in FY23E) might dilute short-term margin, but long-term margin improvement remains intact. We expect FY23/24E adj. NPM at 5.5%/6.5%, backed by narrowing loss of Hago & Shoplevel (Bigo OPM stable YoY in FY23E). To factor in soft 1Q23E and Bigo investment, we cut FY22-24E earnings by 3.4-9.6%, with new SOTP-based TP at US\$46.

- **Upbeat 4Q22 with cloudy guidance.** User metrics in 4Q22 trended well, as Bigo Live MAU sequentially increased by 14.3% to 36.8mn. Rev -8.9% YoY, in line with consensus, in which Bigo/All others -17.3%/46.7%. 1Q23E rev is guided between US\$552mn and US\$570mn, midpoint 1% below consensus for macro uncertainties and soft seasonality. Non-GAAP NP recorded at US\$50mn, 82% above consensus, mainly on disciplined S&M expenses offset by expenses on the annual gala and Shoplevel loss.
- **Waiting for 2H23E recovery.** CNY and Ramadan disruptions dampened 1Q23E momentum. We forecast rev -9% YoY/-7% QoQ in 1Q23E (in which BIGO -5% QoQ), with competition pressure in the Middle East and macro challenges. Headwinds may linger in 2Q23E, but rev drop range would narrow (forecasting Bigo +1% QoQ). We expect Bigo Live to resume growth in 2H23E (Bigo at LSD decline in FY23E), supported by rising paying users in European & US mkt and stabilization of the Middle East mkt. JOYY aims to further improve Bigo Live's penetration, expand user base and engagement via product innovation and innovative local operations.
- **Bigo OPM stable YoY in FY23E.** We expect 1Q23E adj. NP at US\$12mn, with margin diluted by Shoplevel loss and FX loss. JOYY might invest in Bigo Live to boost its momentum in FY23E, but expenses could be manageable (targeting non-GAAP OPM stable YoY). Likee achieved a breakeven in 2H22, and mgmt. targets to achieve user growth in FY23E while maintains profitability. Looking ahead, we expect adj. NPM of Group at 5.5%/6.5% in FY23/24E, with continuous cost discipline and narrowing loss of Shoplevel.
- **Maintain BUY.** We trimmed FY22E-24E earnings by 3.4-9.6% to reflect 1Q23E softness and Bigo investment. Our SOTP-based TP was correspondingly adjusted to US\$46, by assigning 6x FY23E P/E to Bigo Live.

Earnings Summary

(YE 31 Dec)	FY21A	FY22	FY23E	FY24E	FY25E
Revenue (US\$ mn)	2,619	2,412	2,461	2,551	2,654
YoY growth (%)	36.5	(7.9)	2.0	3.7	4.1
Net income (US\$ mn)	109	199	136	167	203
Adj. EPS (US\$)	1.4	2.8	1.9	2.3	2.8
YoY growth (%)	NA	83.0	(31.7)	22.4	22.0
Consensus EPS	NA	NA	2.1	2.6	3.2
P/E (x)	NA	9.8	14.3	11.7	9.7
P/S (x)	1.5	0.8	0.8	0.8	0.7
Yield (%)	8.0	8.1	8.9	9.7	10.6

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$46.0
(Previous TP	US\$49.0)
Up/Downside	+70.0%
Current Price	US\$27.0

China Internet Sector

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Stock Data

Mkt Cap (US\$ mn)	2,016
Avg 3 mths t/o (US\$ mn)	22.86
52w High/Low (US\$)	47.23/21.38
Total Issued Shares (mn)	55

Source: Bloomberg

Shareholding Structure

T Rowe Price Group	7.20%
BlackRock	4.41%
Point 72	3.56%

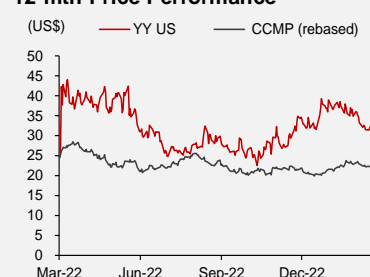
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-18.4%	-14.1%
3-mth	-17.1%	-17.1%
6-mth	-4.9%	4.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Figure 1: 4Q22 financial review

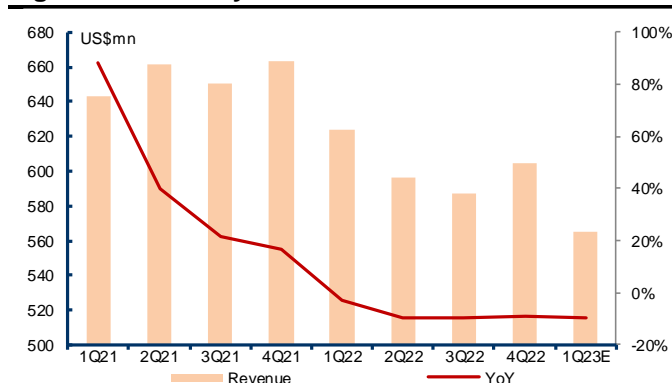
US\$ mn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	QoQ	YoY	Consensus	Diff %	CMBI	Diff %
Revenue	643	662	651	664	624	596	587	605	3.1%	-8.9%	602	0%	602	0%
Gross profit	200	203	211	224	201	218	220	212	-3.6%	-5.0%	215	-1%	210	1%
Operating profit	(73)	(101)	7	61	6	39	20	(14)	NA	NA	24	NA	(73)	NA
Adj. net profit	(26)	(4)	33	98	21	51	77	50	NA	NA	28	82%	2	2041%
Adj. EPS (US\$)	(0.30)	(0.04)	0.36	1.35	0.28	0.71	0.94	0.62	NA	NA	0.21	200%	0.12	407%
Margin (%)														
Gross margin	31.1%	30.7%	32.4%	33.7%	32.2%	36.6%	37.5%	35.1%			35.7%		34.8%	
Operating margin	-11.4%	-15.3%	1.1%	9.1%	1.0%	6.5%	3.4%	-2.3%			4.0%		-12.1%	
Adj. net margin	-4.0%	-0.5%	5.1%	14.7%	3.3%	8.6%	13.1%	8.3%			4.6%		0.4%	
Growth (%)														
Revenue (YoY)	88.1%	39.7%	21.7%	16.8%	-3.0%	-9.9%	-9.8%	-8.9%			-9.2%		-7.0%	
Revenue (QoQ)	13.1%	2.9%	-1.7%	2.0%	-6.0%	-4.4%	-1.6%	3.1%			2.7%		1.5%	
Operating profit	NA	NA	NA	NA	NA	NA	NA	NA			NA		NA	
Adj. net profit	NA	NA	NA	NA	NA	NA	131.5%	-48.4%			NA		NA	

Source: Company data, Bloomberg, CMBIGM estimates

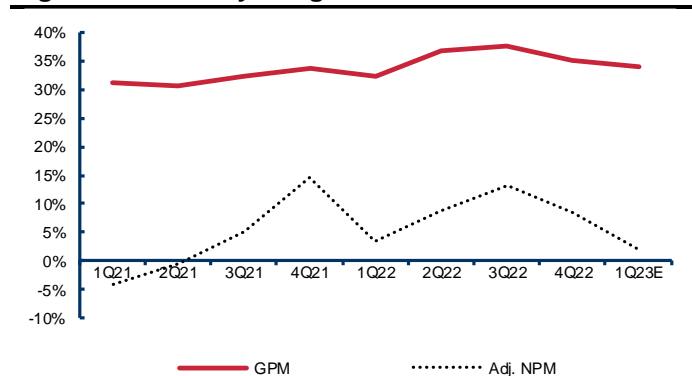
Figure 2: Revenue breakdown

US\$ mn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	QoQ	YoY
Total revenue	643	662	651	664	624	596	587	605	3.1%	-8.9%
by segment										
Live broadcasting	614	630	612	621	590	565	543	527	-2.8%	-15.1%
Others	29	32	38	43	34	31	44	77	76.2%	80.9%
by platform										
Bigo	581	598	569	576	535	503	483	476	-1.4%	-17.3%
All other	62	64	82	88	89	93	103	128	24.2%	46.7%

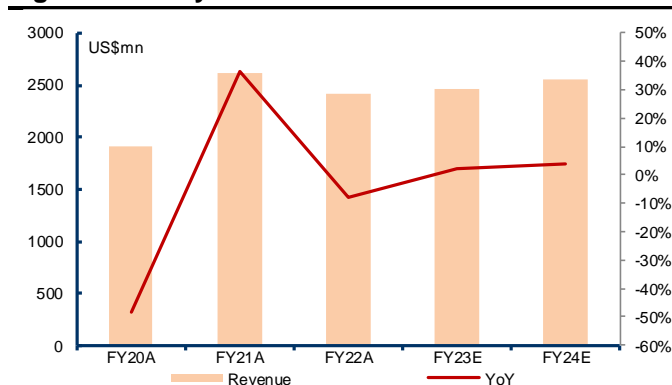
Source: Company data, CMBIGM estimates

Figure 3: Quarterly rev estimates

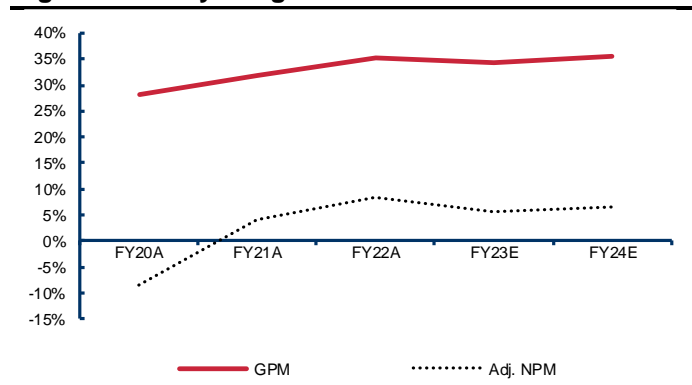
Source: Company data, CMBIGM estimates

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

We trimmed FY22E-24E earnings by 3.4-9.6% to reflect 1Q23E softness and Bigo investment. We expect Bigo Live to resume growth in 2H23E with Middle East stabilization. JOYY might invest in Bigo Live to boost its momentum in FY23E, but expenses could be manageable (forecasting non-GAAP OPM stable YoY). In the long run, we are positive on its better margin outlook, backed by narrowing loss of other biz.

Our SOTP-based TP was correspondingly adjusted from US\$49 to US\$46. The new TP was derived from: 1) YY Live: US\$1.9bn, based on proceeds from Baidu (for conservative estimates); 2) Huya: based on market cap; and 3) Bigo Live: US\$1.5bn, by assigning 6x FY23E P/E (multiple below industrial average for its slower growth and competition pressure).

Figure 7: CMBIGM estimates vs consensus

US\$ mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	2,461	2,551	2,654	2,511	2,693	2,995	-2.0%	-5.3%	-11.4%
Gross Profit	846	909	952	889	967	1,079	-4.9%	-6.0%	-11.8%
Operating Profit	138	168	205	96	143	212	43.3%	17.8%	-3.0%
Net profit	136	167	203	167	198	250	-18.5%	-15.7%	-18.6%
Adj. EPS (RMB)	1.89	2.30	2.80	2.11	2.58	3.16	-10.4%	-10.8%	-11.5%
Gross Margin	34.4%	35.7%	35.8%	35.4%	35.9%	36.0%	-1.0ppts	-0.2ppts	-0.2ppts
Operating Margin	5.6%	6.6%	7.7%	3.8%	5.3%	7.1%	+1.8ppts	+1.3ppts	+0.7ppts
Net Margin	5.5%	6.5%	7.7%	6.7%	7.3%	8.3%	-1.1ppts	-0.8ppts	-0.7ppts

Source: CMBIGM estimates, Bloomberg

Figure 8: Earnings revision

US\$ mn, Dec-YE	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	2,461	2,551	2,654	2,461	2,527	NA	0.0%	0.9%	NA
Gross Profit	846	909	952	900	929	NA	-6.0%	-2.2%	NA
Operating Profit	138	168	205	154	176	NA	-10.7%	-4.5%	NA
Net profit	136	167	203	151	172	NA	-9.6%	-3.4%	NA
Adj. EPS (RMB)	1.89	2.30	2.80	2.09	2.38	NA	-9.6%	-3.4%	NA
Gross Margin	34.4%	35.7%	35.8%	36.6%	36.8%	NA	-2.2ppts	-1.1ppts	NA
Operating Margin	5.6%	6.6%	7.7%	6.3%	7.0%	NA	-0.7ppts	-0.4ppts	NA
Net Margin	5.5%	6.5%	7.7%	6.1%	6.8%	NA	-0.6ppts	-0.3ppts	NA

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
Huya	Based on mkt cap			18%		162
Bigo Live	FY23E	1,829	247	6x FY23E P/E	100%	1,481
Total						3,543
Net cash (less: US\$1.9bn received from Baidu)						1,190
Holding discount						30%
Equity Value (US\$ mn)						3,313
Target Price (US\$)						46

Source: Company data, CMBIGM estimates

Figure 10: Valuation comps

Company	Ticker	Mkt cap (USD mn)	Currency	Price	CMBI Rating	CMBI TP	PE			PS		
							FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
JOYY	YY US	1,919	USD	27	BUY	46	14.3	11.7	9.7	0.8	0.8	0.7
Live Streaming												
Hello Inc	MOMO US	1,664	USD	8	HOLD	14	6.2	5.9	5.4	0.9	0.9	0.9
Inke	3700 HK	252	HKD	1	NA	NA	5.8	6.5	5.4	0.2	0.2	0.2
Douyu	DOYU US	381	USD	1	NA	NA	NA	NA	25.1	0.4	0.4	0.4
Huya	HUYA US	924	USD	4	BUY	8	NA	NA	43.5	0.7	0.7	0.7
Average							6.0	6.2	5.4	0.5	0.6	0.5
Pan-entertainment												
TME	TME US	12,922	USD	8	BUY	11	18.6	16.8	15.4	3.1	3.0	2.8
iQIYI	IQ US	6,618	USD	7	BUY	9	21.4	14.1	11.2	1.4	1.3	1.2
China Literature	772 HK	4,334	HKD	34	NA	NA	22.8	19.3	16.8	3.8	3.4	3.1
Bilibili	BILI US	8,649	USD	21	BUY	30	NA	NA	48.7	2.3	2.0	1.7
Kuaishou	1024 HK	28,373	HKD	51	BUY	94	NA	NA	20.9	2.1	1.8	1.5
Zhihu	ZH US	735	USD	1	BUY	2	NA	NA	NA	1.4	1.1	0.9
Average							20.9	16.7	16.1	2.4	2.1	1.9
Average							15.0	12.5	10.8	1.6	1.5	1.3

Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (US\$ mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	2,619	2,412	2,461	2,551	2,654
Live broadcasting	2,477	2,226	2,207	2,264	2,329
Others	142	186	254	287	325
COGS	(1,781)	(1,559)	(1,615)	(1,641)	(1,703)
Gross profit	838	852	846	909	952
S&M	(280)	(262)	(280)	(287)	(295)
Admin. Exp.	(468)	(400)	(392)	(398)	(393)
R&D	(222)	(142)	(156)	(157)	(159)
Others	-	(15)	-	(0)	(0)
Operating profit	(107)	51	36	67	104
Financial income	91	93	105	105	105
Other income	25	18	19	(0)	(0)
Pre-tax income	(78)	635	123	153	191
Income tax	(26)	(35)	(34)	(34)	(35)
MI	14	27	-	-	-
Share of equity inv	(26)	(498)	-	-	-
Net profit	(90)	119	89	119	156
Adj. net profit	109	199	136	167	203

Cash flow summary

YE 31 Dec (US\$ mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Net income	(130)	102	89	119	156
D&A	88	105	121	135	148
Change in WC	(26)	(50)	(7)	(13)	(15)
Others	2,081	735	185	199	173
Operating CF	2,013	892	387	439	462
Capex	(158)	(163)	(168)	(173)	(178)
Associates	-	-	-	-	-
Others	(821)	(288)	(116)	(116)	(116)
Investing CF	(979)	(451)	(283)	(288)	(294)
Equity raised	-	-	-	-	-
Change of debts	-	-	-	-	-
Others	(724)	-	-	-	-
Financing CF	(724)	-	-	-	-
Net change in cash	312	441	104	151	169
Cash (beg of yr)	1,756	2,068	2,509	2,613	2,764
FX	-	-	-	-	-
Cash (end of yr)	2,068	2,509	2,613	2,764	2,932

Balance sheet

YE 31 Dec (US\$ mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Non-current assets	4,050	4,427	4,659	4,696	4,726
Fixed asset	365	343	575	613	642
Long-term investments	1,022	660	660	660	660
Intangible assets	312	398	398	398	398
Others	2,350	3,025	3,025	3,025	3,025
Current assets	5,070	4,645	5,699	5,863	6,047
Cash	2,134	1,518	2,613	2,764	2,932
Deposit over 3 months	1,604	2,361	2,361	2,361	2,361
Account receivable	114	118	120	125	130
Others	1,218	648	605	614	624
Current liabilities	2,512	3,072	3,102	3,146	3,164
Borrowings	-	-	-	-	-
Account payable	18	56	57	58	58
Tax payable	66	78	78	78	78
Accrued expenses	2,346	2,360	2,388	2,427	2,442
Other	82	578	579	583	586
Non-current liabilities	980	497	475	476	476
Convertible debt	924	401	401	401	401
Other long-term liabilities	56	96	74	75	75
MI	34	233	218	203	189
Total net assets	5,628	5,503	6,780	6,938	7,133
Shareholders' equity	5,594	5,270	6,067	6,239	6,449

Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Sales mix (%)					
Live broadcasting	94.6	92.3	89.7	88.8	87.7
Others	5.4	7.7	10.3	11.2	12.3
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	36.5	(7.9)	2.0	3.7	4.1
Gross profit	55.2	1.7	(0.7)	7.5	4.6
EBIT	NA	NA	NA	84.2	55.6
Net profit	NA	83.0	(31.7)	22.4	22.0
P&L ratios (%)					
Operating margin	(4.1)	2.1	1.5	2.6	3.9
Pre-tax margin	(3.0)	26.3	5.0	6.0	7.2
Adj. net margin	4.2	8.3	5.5	6.5	7.7
Effective tax rate	33.2	(5.4)	(27.9)	(22.4)	(18.1)
Returns (%)					
ROE	1.8	3.7	2.4	2.7	3.2
ROA	1.3	2.2	1.4	1.6	1.9
Per share					
EPS (RMB)	(1.1)	1.7	1.2	1.6	2.1
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	71.6	73.2	84.3	86.3	88.7

Source: Company data, CMBIGM estimates

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