

Momo (MOMO US)

Soft guidance; Headwinds yet over

Momo delivered mixed 2Q20 results, with revenue/adj. net profit -7%/-28% YoY, 1%/1% above consensus. 3Q20 rev guidance came in at -16.9%~-14.6% YoY, midpoint 13% below consensus. 2H20E would still see pressure, given livestreaming structural adjustment, macro uncertainty and suppressed gifting willingness. We are conservative on its short-term recovery pace, given COVID-19 challenges and competition from short videos. We cut our earnings forecast by 29%/11%/11% in FY20/21/22E, and downgrade to HOLD with new TP of US\$19.3 (12x FY20E P/E).

- **2Q20 in line, while guidance was soft again.** 2Q20 revenue declined 7% YoY, 1% above consensus. Non-GAAP net profit declined 28% YoY, 1% above consensus. However, 3Q20E rev guidance disappointed us at -16.9%~-14.6%YoY, midpoint 13% below consensus. User metrics saw mild recovery, +3% QoQ/ paying users +0% QoQ.
- **Limited visibility for recovery.** 2Q20 livestreaming revenue -16% YoY, while VAS +27% YoY. 3Q20 guidance miss was mainly on livestreaming structural adjustment. Momo would try to stimulate long-tail gifting by adjusting its traffic mechanism, agents KPI, and content improvement, which might put short-term pressure on its topline growth and gross profit. Mgmt expected earnings to bottom out in 3Q20 and to recover in 4Q20 onwards, with 3ppts negative impact on gross margin from this reform. We are conservative on its livestreaming trend in 2H20E, given reform uncertainty, suppressed gifting willingness and competition. We forecast Momo's livestreaming rev to decline 18% QoQ in 3Q20E, with VAS +30% YoY.
- **Tantan's monetization to enhance.** Tantan's revenue +81.6% YoY in 2Q20. Its paying users declined to 3.9mn in 2Q20 (vs. 4.2mn in 1Q20), but would saw mild sequential growth in 3Q20E. Tantan enhanced its monetization with strong livestreaming momentum. We expect Tantan's revenue to grow 34% QoQ in 3Q20E, with higher rev mix from livestreaming.
- **D/G to HOLD.** To reflect financial drag from Momo's livestreaming reform, we cut our earnings forecast by 29%/11%/11% in FY20/21/22E, and downgrade to HOLD with new TP of US\$19.3 (12x FY20E P/E) from US\$29.4. Given multiple challenges from COVID-19 and macro uncertainty, we suggest investors to wait for more clear signals for its livestreaming reform.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	13,995	17,142	14,962	15,997	17,678
YoY growth (%)	60.5	22.5	-12.7	6.9	10.5
Net income (RMB mn)	3,611	4,304	2,599	4,247	5,164
EPS (RMB)	16.9	18.9	11.3	18.2	20.2
YoY growth (%)	35.9	12.3	-40.6	61.0	20.0
Consensus EPS (RMB)	NA	NA	15.9	20.9	22.7
P/E (x)	7.0	6.2	10.5	6.5	5.4
P/B (x)	3.1	2.6	2.5	2.4	2.3
Yield (%)	2.0	0.0	0.0	0.0	0.0
ROE (%)	33.5	29.8	17.3	30.0	36.1
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

HOLD (Down)

Target Price US\$19.3
 (Previous TP) US\$29.4
Up/Downside +13.5%
Current Price US\$16.9

China Internet Sector

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Stock Data

Mkt Cap (US\$ mn)	4,326
Avg 3 mths t/o (US\$ mn)	96.5
52w High/Low (US\$)	39.4/18.6
Total Issued Shares (mn)	169.2

Source: Bloomberg

Shareholding Structure

Pendal Group	8.2%
Renaissance Tech	7.9%
BlackRock	4.3%

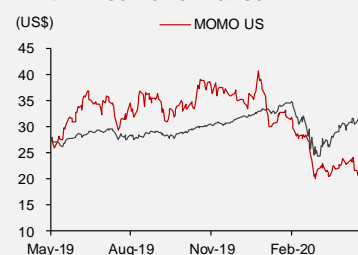
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-12.9%	-16.5%
3-mth	-34.9%	-29.7%
6-mth	-45.9%	-48.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Related Reports

1. Mixed 1Q20; Cautious on ST recovery pace – 29 May 2020
2. 1Q20E Preview: Cautious on recovery path - 19 May 2020
3. Mixed 4Q19; Waiting for 2H20E recovery – 23 Mar 2020

Figure 1: CMBIS estimates vs consensus

RMB mn, Dec-YE	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	14,962	15,997	17,678	16,725	19,426	21,333	-10.5%	-17.7%	-17.1%
Gross Profit	6,873	8,212	9,243	8,090	9,529	10,502	-15.0%	-13.8%	-12.0%
Operating Profit	2,261	4,254	5,155	3,573	4,625	5,310	-36.7%	-8.0%	-2.9%
Net profit	2,599	4,247	5,164	3,565	4,686	5,383	-27.1%	-9.4%	-4.1%
EPS (RMB)	11.28	18.16	20.17	15.86	20.85	22.73	-28.9%	-12.9%	-11.3%
Gross Margin	45.9%	51.3%	52.3%	48.4%	49.1%	49.2%	-2.4ppts	+2.3ppts	+3.1ppts
Operating Margin	15.1%	26.6%	29.2%	21.4%	23.8%	24.9%	-6.2ppts	+2.8ppts	+4.3ppts
Net Margin	17.4%	26.5%	29.2%	21.3%	24.1%	25.2%	-3.9ppts	+2.4ppts	+4.0ppts

Source: Company data, Bloomberg

Figure 2: Earnings revision

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	14,962	15,997	17,678	16,387	19,202	21,100	-8.7%	-16.7%	-16.2%
Gross Profit	6,873	8,212	9,243	7,992	9,433	10,553	-14.0%	-13.0%	-12.4%
Operating Profit	2,261	4,254	5,155	3,523	4,710	5,688	-35.8%	-9.7%	-9.4%
Net profit	2,599	4,247	5,164	3,672	4,789	5,792	-29.2%	-11.3%	-10.8%
EPS (RMB)	11.28	18.16	20.17	15.94	20.48	22.62	-29.2%	-11.3%	-10.8%
Gross Margin	45.9%	51.3%	52.3%	48.8%	49.1%	50.0%	-2.8ppts	+2.2ppts	+2.3ppts
Operating Margin	15.1%	26.6%	29.2%	21.5%	24.5%	27.0%	-6.4ppts	+2.1ppts	+2.2ppts
Net Margin	17.4%	26.5%	29.2%	22.4%	24.9%	27.4%	-5.0ppts	+1.6ppts	+1.8ppts

Source: CMBIS estimates

Figure 3: Momo's 2Q20 review

RMB mn	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	QoQ	YoY	Consensus	Diff %
Revenue	3,723	4,153	4,452	4,688	3,594	3,868	7.6%	-6.8%	3,837	1%
Operating profit	422	966	1,033	1,249	594	813	36.8%	-15.8%	971	-16%
Net profit	289	789	945	1,056	539	456	-15.3%	-42.2%	458	0%
Adj. net profit	910	928	1,088	1,253	736	669	-9.2%	-27.9%	662	1%
Adj. EPS	4.15	4.12	4.90	5.61	3.34	3.05	-8.7%	-26.0%	3.04	0%
Margin (%)										
Gross Margin	50.3%	50.9%	51.1%	49.8%	47.8%	47.4%			48.2%	
Operating margin	11.3%	23.3%	23.2%	26.7%	16.5%	21.0%			25.3%	
Adj. net margin	24.5%	22.4%	24.4%	26.7%	20.5%	17.3%			17.2%	
Growth (%)										
Revenue (YoY)	34.7%	31.7%	22.0%	22.0%	-3.5%	-6.8%			-7.6%	
Revenue (QoQ)	-3.1%	11.5%	7.2%	5.3%	-23.3%	7.6%			6.7%	
Operating profit	-55.0%	7.7%	60.4%	57.4%	40.9%	-15.8%			0.5%	
Adj. net profit	0.7%	4.9%	45.2%	41.1%	-19.1%	-27.9%			-28.7%	

Source: Company data, Bloomberg

Figure 4: 1Q20 Revenue breakdown

RMB mn	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	QoQ	YoY
Total revenue	3,723	4,153	4,452	4,688	3,594	3,868	8%	-7%
Live broadcasting	2,689	3,100	3,275	3,383	2,332	2,603	12%	-16%
VAS	904	948	1,065	1,189	1,176	1,204	2%	27%
Mobile marketing	81	76	82	93	57	38	-33%	-50%
Mobile games	39	23	16	14	13	12	-9%	-50%
Other services	10	5	14	8	16	12	-30%	135%

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	13,995	17,142	14,962	15,997	17,678
Live streaming	11,198	12,540	9,510	9,596	10,172
VAS	1,946	4,138	5,145	6,061	7,128
Mobile game	442	334	183	192	200
Marketing	221	93	88	107	128
Other services	189	37	35	42	49
COGS	(7,464)	(8,455)	(8,089)	(7,786)	(8,435)
Gross profit	6,531	8,687	6,873	8,212	9,243
S&M	(1,766)	(2,458)	(2,698)	(2,147)	(2,203)
Admin.Exp.	(310)	(849)	(598)	(536)	(556)
R&D	(677)	(917)	(773)	(719)	(795)
Others	(603)	(1,069)	(598)	(640)	(707)
Operating profit	3,440	3,743	2,261	4,254	5,155
Financial Cost	225	371	197	213	374
Associates	51	14	24	24	24
Pre-tax Income	3,716	4,128	2,482	4,491	5,553
Income Tax	(735)	(891)	(496)	(898)	(1,111)
MI	28	(10)	(14)	(14)	(14)
Net profit	3,009	456	286	515	637
Adj. net profit	3,611	4,304	2,599	4,247	5,164

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income	2,981	3,090	1,901	3,439	4,442
D&A	250	345	298	308	339
Change in WC	447	352	(637)	205	(55)
Others	328	603	1,046	573	612
Operating CF	2,991	4,280	4,834	2,135	4,565
Capex	(275)	(148)	(167)	(171)	(195)
Associates	-	-	-	-	-
Others	(11,789)	(3,777)	(155)	(155)	(162)
Investing CF	(12,064)	(3,925)	(322)	(326)	(357)
Equity raised	5,172	900	-	-	-
Change of Debts	-	-	-	-	-
Others	313	(1,670)	(1,956)	(3,444)	(4,746)
Financing CF	5,485	(770)	(1,956)	(3,444)	(4,746)
Net change in cash	(2,300)	138	(143)	795	330
Cash (beg of yr)	4,752	2,409	2,514	2,372	3,309
FX	-	-	-	-	-
Cash (end of yr)	2,452	2,547	2,372	3,167	3,639

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	6,275	6,449	6,462	6,480	7,467
Fixed asset	412	358	381	399	479
Associates	269	280	291	301	302
Intangible assets	-	-	-	-	-
Others	4,826	5,613	5,604	5,604	6,440
Current assets	12,633	15,225	15,036	15,828	18,561
Cash	2,468	2,519	2,372	3,167	4,002
Deposit over 3 months	8,825	11,869	11,850	11,850	13,618
Account receivable	720	256	235	231	274
Others	621	582	581	581	667
Current liabilities	2,696	2,513	1,851	2,053	2,308
Borrowings	-	-	-	-	-
Account payable	718	689	516	589	668
Tax payable	-	-	-	-	-
Others	1,978	1,824	1,335	1,464	1,640
NC liabilities	5,160	5,936	5,927	5,927	6,811
Borrowings	-	-	-	-	-
Others	5,160	5,936	5,927	5,927	6,811
MI	-	-	-	-	-
Total net assets	11,023	13,225	13,720	14,328	16,910
Shareholders' equity	11,023	13,225	13,720	14,328	16,910

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Live streaming	80.0	73.2	63.6	60.0	57.5
VAS	13.9	24.1	34.4	37.9	40.3
Mobile game	3.2	2.0	1.2	1.2	1.1
Mobile marketing	1.6	0.5	0.6	0.7	0.7
Other services	1.3	0.2	0.2	0.3	0.3
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	53.6	21.3	(13.0)	6.9	10.5
Gross profit	40.8	31.7	(21.1)	19.5	12.6
EBIT	37.9	7.1	(39.4)	88.1	21.2
Net profit	40.2	17.9	(39.7)	63.4	21.6
P&L ratios (%)					
OPM	24.6	21.8	15.1	26.6	29.2
Pre-tax margin	26.5	24.1	16.6	28.1	31.4
Net margin	21.5	2.7	17.4	26.5	29.2
Tax rate	(19.8)	(21.7)	(20.0)	(20.0)	(20.0)
Returns (%)					
ROE	33.5	29.8	17.3	30.0	36.1
ROA	25.8	20.7	11.5	18.6	22.0
Per share					
EPS (RMB)	16.92	18.93	11.28	18.16	20.17
DPS (RMB)	4.30	0.00	0.00	0.00	0.00
BVPS (RMB)	49.70	61.01	63.10	65.59	67.15

Source: Company data, CMBIS estimates

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