

Momo (MOMO US)

Soft guidance with structural adjustment

Momo delivered mixed 3Q20 results, with revenue/adj. net profit -15%/-40% YoY, 1%/15% above consensus. 4Q20 rev guidance missed 6%, given livestreaming structural adjustment, macro uncertainty, suppressed gifting willingness and disciplined S&M. We are conservative on its short-term recovery pace, given COVID-19 challenges and competition from short videos. We adjusted our earnings forecast by +4%/-5%/-4% in FY20/21/22E, and cut our TP to US\$15.5 (9x/8x FY20/21E P/E).

- **3Q20 beat, while guidance was soft again.** 3Q20 revenue declined 15% YoY, 1% above consensus. Non-GAAP net profit declined 40% YoY, 15% above consensus. However, 4Q20E rev guidance disappointed us at -20% to -22% YoY, midpoint 6% below consensus. User metrics saw mild recovery, +2% QoQ/ paying users +2% QoQ.
- **Multiple headwinds yet over.** 3Q20 livestreaming revenue -27% YoY, while VAS +25% YoY. 4Q20 guidance miss was mainly on continuous livestreaming structural adjustment due to new regulation, conservative tournament, and soft gifting willingness. We expect Momo 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. We forecast Momo's core rev to decline 4% QoQ in 4Q20E, with livestreaming/VAS -45% YoY/+25% YoY. 4Q20E gross margin might see 1-2 ppts QoQ decline for incremental cost on hosts.
- **Conservative marketing in Tantan for high TAC in 4Q20E.** Tantan's revenue +48% YoY in 3Q20. Its paying users recovered to 4.1mn in 3Q20 (vs. 3.9mn in 2Q20), but would saw sequential decline in 4Q20E for SVIP launch and disciplined marketing given high TAC in ecommerce seasonality. Tantan would still be long-term growth engine despite short-term pressure. We expect Tantan's revenue to be flat QoQ in 4Q20E.
- **Maintain HOLD.** To reflect financial drag from Momo's livestreaming reform, we adjust our earnings forecast by +4%/-5%/-4% in FY20/21/22E, and cut our TP to US\$15.5 (9x/8x FY20/21E P/E) from US\$19.3. 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	14,919	15,431	16,976
YoY growth (%)	60.5	22.5	-13.0	3.4	10.0
Net income (RMB mn)	3,611	4,304	2,697	3,301	4,103
EPS (RMB)	16.9	18.9	11.7	14.1	16.0
YoY growth (%)	35.9	12.3	-38.4	20.5	22.7
Consensus EPS (RMB)	NA	NA	11.6	15.0	17.6
P/E (x)	5.6	5.0	8.1	6.7	5.5
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	18.2	22.3	27.7
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

HOLD (Maintain)

Target Price	US\$15.5
(Previous TP	US\$19.3)
Up/Downside	+13.1%
Current Price	US\$13.7

China Internet Sector

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Stock Data

Mkt Cap (US\$ mn)	3,156
Avg 3 mths t/o (US\$ mn)	56.93
52w High/Low (US\$)	39/13
Total Issued Shares (mn)	169

Source: Bloomberg

Shareholding Structure

Renaissance Tech	8.4%
Pendal Group	6.9%
Overlook Holdings	4.5%

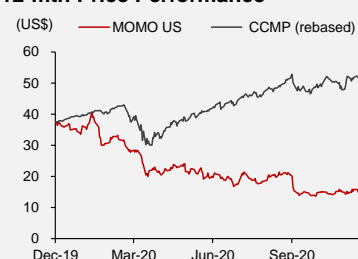
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-2.3%	-10.5%
3-mth	-28.6%	-31.6%
6-mth	-22.1%	-39.4%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Related Reports

1. Soft guidance; Headwinds yet over – 4 Sep 2020
2. Mixed 1Q20; Cautious on ST recovery pace – 29 May 2020
3. 1Q20E Preview: Cautious on recovery path - 19 May 2020

Figure 1: CMBIS estimates vs consensus

RMB mn, Dec-YE	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	14,919	15,431	16,976	15,285	17,437	19,626	-2.4%	-11.5%	-13.5%
Gross Profit	6,853	7,164	8,089	7,105	8,049	9,125	-3.6%	-11.0%	-11.4%
Operating Profit	2,386	3,106	3,911	2,404	2,921	3,610	-0.7%	6.3%	8.3%
Net profit	2,697	3,301	4,103	2,662	3,468	4,299	1.3%	-4.8%	-4.6%
EPS (RMB)	11.71	14.12	16.05	11.59	14.97	17.64	1.1%	-5.7%	-9.0%
Gross Margin	45.9%	46.4%	47.7%	46.5%	46.2%	46.5%	-0.6ppts	+0.3ppts	+1.2ppts
Operating Margin	16.0%	20.1%	23.0%	15.7%	16.8%	18.4%	+0.3ppts	+3.4ppts	+4.6ppts
Net Margin	18.1%	21.4%	24.2%	17.4%	19.9%	21.9%	+0.7ppts	+1.5ppts	+2.3ppts

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	14,919	15,431	16,976	14,962	15,997	17,678	-0.3%	-3.5%	-4.0%
Gross Profit	6,853	7,164	8,089	6,873	7,207	8,133	-0.3%	-0.6%	-0.5%
Operating Profit	2,386	3,106	3,911	2,261	3,308	4,126	5.5%	-6.1%	-5.2%
Net profit	2,697	3,301	4,103	2,599	3,464	4,283	3.8%	-4.7%	-4.2%
EPS (RMB)	11.71	14.12	16.05	11.28	14.81	16.75	3.8%	-4.7%	-4.2%
Gross Margin	45.9%	46.4%	47.7%	45.9%	46.7%	47.9%	-0.0ppts	-0.3ppts	-0.3ppts
Operating Margin	16.0%	20.1%	23.0%	15.1%	21.4%	24.3%	+0.9ppts	-1.3ppts	-1.3ppts
Net Margin	18.1%	21.4%	24.2%	17.4%	22.4%	25.2%	+0.7ppts	-1.1ppts	-1.1ppts

Source: CMBIS estimates

Figure 3: Momo's 3Q20 review

RMB mn	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	QoQ	YoY	Consensus	Diff %
Revenue	3,723	4,153	4,452	4,688	3,594	3,868	3,767	-2.6%	-15.4%	3,711	1%
Operating profit	422	966	993	1,249	594	813	531	-34.7%	-46.5%	417	27%
Net profit	289	789	894	1,056	539	456	457	0.1%	-48.9%	367	24%
Adj. net profit	910	928	1,085	1,253	736	669	653	-2.4%	-39.8%	570	15%
Adj. EPS	4.15	4.12	4.90	5.61	3.34	3.05	2.98	-2.3%	-39.2%	2.53	18%
Margin (%)											
Gross Margin	50.3%	50.9%	51.1%	49.8%	47.8%	47.4%	46.4%			44.8%	
Operating margin	11.3%	23.3%	22.3%	26.7%	16.5%	21.0%	14.1%			11.2%	
Adj. net margin	24.5%	22.4%	24.4%	26.7%	20.5%	17.3%	17.3%			15.4%	
Growth (%)											
Revenue (YoY)	34.7%	31.7%	22.0%	22.0%	-3.5%	-6.8%	-15.4%			-16.6%	
Revenue (QoQ)	-3.1%	11.5%	7.2%	5.3%	-23.3%	7.6%	-2.6%			-4.1%	
Operating profit	-55.0%	7.7%	54.3%	57.4%	40.9%	-15.8%	-46.5%			-58.0%	
Adj. net profit	0.7%	4.9%	44.8%	41.1%	-19.1%	-27.9%	-39.8%			-47.4%	

Source: Company data, Bloomberg

Figure 4: 3Q20 Revenue breakdown

RMB mn	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	QoQ	YoY
Total revenue	3,723	4,153	4,452	4,688	3,594	3,868	3,767	-3%	-15%
Live broadcasting	2,689	3,100	3,275	3,383	2,332	2,603	2,375	-9%	-27%
VAS	904	948	1,065	1,189	1,176	1,204	1,331	11%	25%
Mobile marketing	81	76	82	93	57	38	50	33%	-38%
Mobile games	39	23	16	14	13	12	8	-31%	-49%
Other services	10	5	14	8	16	12	3	-78%	-81%

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	13,995	17,142	14,919	15,431	16,976
Live streaming	11,198	12,540	9,486	9,193	9,680
VAS	1,946	4,138	5,128	5,907	6,932
Mobile game	442	334	183	185	192
Marketing	221	93	88	103	123
Other services	189	37	35	42	49
COGS	(7,464)	(8,455)	(8,066)	(8,266)	(8,887)
Gross profit	6,531	8,687	6,853	7,164	8,089
S&M	(1,766)	(2,458)	(2,635)	(2,314)	(2,375)
Admin. Exp.	(310)	(849)	(597)	(517)	(534)
R&D	(677)	(917)	(771)	(694)	(764)
Others	(603)	(1,069)	(597)	(617)	(679)
Operating profit	3,440	3,743	2,386	3,106	3,911
Financial Cost	225	371	197	206	327
Associates	51	14	24	24	24
Pre-tax Income	3,716	4,128	2,608	3,336	4,262
Income Tax	(735)	(891)	(522)	(667)	(852)
MI	28	(10)	(14)	(14)	(14)
Net profit	3,009	456	300	383	489
Adj. net profit	3,611	4,304	2,697	3,301	4,103

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income	2,981	3,090	1,997	2,555	3,409
D&A	250	345	298	303	332
Change in WC	447	352	(637)	205	(55)
Others	328	603	1,046	571	591
Operating CF	2,991	4,280	4,834	2,229	3,654
Capex	(275)	(148)	(166)	(166)	(188)
Associates	-	-	-	-	-
Others	(11,789)	(3,777)	(155)	(155)	(162)
Investing CF	(12,064)	(3,925)	(321)	(320)	(350)
Equity raised	5,172	900	-	-	-
Change of Debts	-	-	-	-	-
Others	313	(1,670)	(2,051)	(2,538)	(3,662)
Financing CF	5,485	(770)	(2,051)	(2,538)	(3,662)
Net change in cash	(2,300)	138	(143)	795	353
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	3,662

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	18,587
Cash	2,468	2,519	2,372	3,167	4,028
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	16,935
Shareholders' equity	11,023	13,225	13,720	14,328	16,935

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Live streaming	80.0	73.2	63.6	59.6	57.0
VAS	13.9	24.1	34.4	38.3	40.8
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	(13.2)	3.4	10.0
Gross profit	40.8	31.7	(21.3)	4.5	12.9
EBIT	37.9	7.1	(36.0)	30.2	25.9
Net profit	40.2	17.9	(37.4)	22.4	24.3
P&L ratios (%)					
OPM	24.6	21.8	16.0	20.1	23.0
Pre-tax margin	26.5	24.1	17.5	21.6	25.1
Net margin	21.5	2.7	18.1	21.4	24.2
Tax rate	(19.8)	(21.7)	(20.0)	(20.0)	(20.0)
Returns (%)					
ROE	33.5	29.8	18.2	22.3	27.7
ROA	25.8	20.7	12.0	14.4	17.5
Per share					
EPS (RMB)	16.92	18.93	11.71	14.12	16.05
DPS (RMB)	4.30	0.00	0.00	0.00	0.00
BVPS (RMB)	49.70	61.01	63.10	65.59	67.25

Source: Company data, CMBIS estimates

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