

JOYY Inc. (YY US)

Expecting solid 1Q20E on track

We expect YY to deliver in-line 1Q20E results in late May, with revenue at RMB6.85bn (+43% YoY) and adj. net profit at RMB383mn (-41% YoY). 1Q20E overseas user metrics trend well. We keep positive on its overseas expansion, and expect YY Core to see positive growth in 2H20E. Bigo's strong momentum and narrowing loss could help it re-rate, coupled with Likee's initial monetization. We keep our core forecast unchanged but adjusted Huya's deconsolidation. Maintain BUY with TP of US\$74.

- Solid 1Q20E on track.** We forecast its revenue/adj. net profit at RMB6.85bn/RMB383mn, suggesting +43%/-41% YoY in 1Q20E (at midpoint of guidance). International expansion would be key focus, and Huya would be deconsolidated from 2Q20E. We forecast its 2Q20E revenue at RMB5.0bn, with 20% YoY decline (excluding Huya's revenue).
- Bigo's strong momentum to continue.** We view Bigo resilient to COVID-19. Its net adds & time spent trend well in 1Q20E, according to sensor tower. We forecast Bigo's revenue to grow 73% YoY in 1Q20E (pro-forma), and 61% YoY in 2Q20E. Likee began monetization through ads and livestreaming, forecasting to contribute 10% of Bigo's revenue in FY20E. We estimate Bigo's non-GAAP OPM at -19% in 1Q20E, on track to achieve monthly breakeven in FY20E and overall breakeven in FY21E.
- YY Core to see positive growth in 2H20E.** We expect YY Core revenue to decline 5% YoY in 1Q20E for weak seasonality and COVID-19 impact, and stay flat YoY in 2Q20E. With stabilization of domestic epidemic, we expect YY Core to see positive revenue growth from 3Q20E, and 3% YoY in FY20E. HAGO's revenue would see 150% YoY growth, but still small part of YY Core. We estimate its non-GAAP OPM at 20% in FY20E and 18% in 1Q20E, mainly on innovative features and initiatives investment.
- Maintain BUY.** We maintain our TP of **US\$74** unchanged. The stock is now trading at 16x/11x FY20/21E P/E. Valuation is attractive. We think COVID-19 and regulation impact have been priced in. Healthy overseas user metrics trend and overseas expansion could be further catalysts, as investors gradually digest global TAM and competition landscape.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	15,764	25,576	23,672	25,032	29,342
YoY growth (%)	36.0	62.2	-7.4	5.7	17.2
Net income (RMB mn)	3,196	4,327	2,113	3,108	4,570
Adj. EPS (RMB)	49.25	28.79	23.05	33.79	49.48
YoY growth (%)	11.0	(41.6)	(19.9)	46.6	46.4
Consensus EPS (RMB)	NA	NA	39.37	50.21	62.7
P/E (x)	7.7	13.1	16.4	11.2	7.6
P/B (x)	1.7	1.0	1.1	1.0	1.0
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	9.9	11.1	3.4	6.0	6.9
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	US\$74.0
(Previous TP)	US\$74.0)
Up/Downside	+36.7%
Current Price	US\$54.1

China Internet Sector

Sophie Huang

(852) 3900 0889

sophiehuang@cmbi.com.hk

Stock Data

Mkt Cap (US\$ mn)	4,210
Avg 3 mths t/o (US\$ mn)	59.0
52w High/Low (US\$)	89/42
Total Issued Shares (mn)	63.5

Source: Bloomberg

Shareholding Structure

Lei Jun	15.5%
Capital Group	5.7%
Morgan Stanley	4.8%

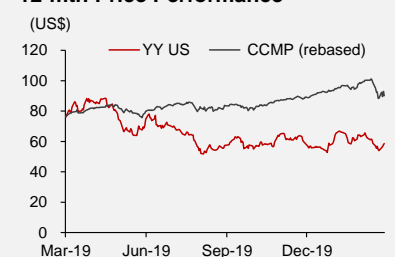
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-8.7%	-0.7%
3-mth	-1.4%	-3.3%
6-mth	2.1%	-5.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

- Solid 4Q19; Eyes on overseas momentum – 18 Mar 2020
- Overseas expansion to bring upside – 9 Mar 2020
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- Solid 3Q19 with stepping-up investment – 14 Nov 2019
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Figure 1: 1Q20E financial preview

RMB mn	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20E	QoQ	YoY	Consensus	Diff %
Revenue	3,249	3,773	4,100	4,641	4,781	6,295	6,882	7,618	6,853	-10.0%	43.3%	6,828	0%
Operating profit	596	714	611	719	474	72	160	362	(56)	NA	NA	(73)	NA
Net profit	444	(137)	651	684	3,104	107	178	156	(124)	NA	NA	(11)	NA
Adj. net profit	700	810	787	847	654	520	693	601	383	-36.2%	-41.4%	388	-1%
Adj. EPS (RMB)	10.96	12.69	12.07	13.03	9.32	5.14	6.42	6.70	4.19	-37.5%	-55.1%	4.06	3%
Margin (%)													
Gross margin	38.0%	38.0%	38.0%	35.1%	33.9%	33.7%	31.5%	33.0%	30.5%			30.6%	
Operating margin	18.4%	18.9%	14.9%	15.5%	9.9%	1.1%	2.3%	4.8%	-0.8%			-1.1%	
Adj. net margin	21.5%	21.5%	19.2%	18.2%	13.7%	8.3%	10.1%	7.9%	5.6%			5.7%	
Growth (%)													
Revenue (YoY)	30.8%	44.6%	32.6%	28.0%	47.1%	66.8%	67.8%	64.2%	43.3%			42.8%	
Revenue (QoQ)	5.1%	16.1%	8.7%	13.2%	3.0%	31.7%	9.3%	10.7%	-10.0%			-10.4%	
Operating profit	-4.0%	19.1%	-7.6%	-12.5%	-20.6%	-89.9%	-73.8%	-49.6%	-111.9%			-115.5%	
Adj. net profit	16.9%	35.7%	23.1%	-10.7%	-6.6%	-35.8%	-11.9%	-29.1%	-41.4%			-40.7%	

Source: Company data, Bloomberg, CMBIS estimates

Figure 2: Revenue breakdown

RMB mn	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20E	QoQ	YoY
Total revenue	3,249	3,773	4,100	4,641	4,781	6,295	6,882	7,618	6,840	-10.2%	43.1%
by segment											
Live broadcasting	2,032	3,560	3,895	4,391	4,485	5,923	6,474	7,147	6,468	-9.5%	44.2%
Others	258	32	206	249	296	372	408	472	372	-21.1%	25.8%
by platform											
YY Live	2,407	2,735	2,824	3,136	2,753	3,054	3,080	3,346	2,590	-22.6%	-5.9%
Huya	844	1,038	1,277	1,505	1,631	2,010	2,265	2,467	2,391	-3.1%	46.6%
Bigo					396	1,231	1,537	1,804	1,859	3.0%	369.6%

Source: Company data, CMBIS estimates

Figure 3: SOTP valuation

SOTP		Metrics		Multiple	Shareholding	Valuation
(Rmb mn)	Rev	Net profit				Valuation
YY Live	FY20	12,137	1,942	8x PE	100%	15,535
Huya	Based on Mkt cap				31%	7,595
BIGO	FY20	9,144	NA	2.5x PS	100%	22,860
Total						45,990
Net cash						12,466
Holding discount						20%
Equity Value (Rmb mn)						46,765
Target Price (US\$)						74

Source: Company data, CMBIS estimates

Notes: we add 20% holding discount, to reflect reduced ownership on Huya on Apr 8.

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	15,764	25,576	23,672	25,032	29,342
Live broadcasting	14,878	24,028	22,439	23,454	27,114
Others	886	1,548	1,233	1,578	2,227
COGS	(10,017)	(17,148)	(15,081)	(15,121)	(17,146)
Gross profit	5,746	8,428	8,591	9,912	12,196
S&M	(1,149)	(3,740)	(4,638)	(4,957)	(5,435)
Admin. Exp.	(883)	(1,489)	(1,468)	(1,483)	(1,561)
R&D	(1,192)	(2,535)	(2,711)	(2,871)	(3,121)
Others	118	405	336	325	325
Operating profit	2,640	1,068	110	927	2,405
Financial income	486	734	698	607	607
Other income	(590)	2,407	(554)	(554)	(554)
Pre-tax Income	2,535	4,208	253	979	2,457
Income Tax	(478)	(547)	(249)	(351)	(580)
MI	20	(255)	(117)	-	-
Share of equity inv	59	39	300	605	774
Net profit	1,642	3,379	187	1,233	2,652
Adj. net profit	3,196	4,327	2,113	3,108	4,570

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income	1,642	3,379	304	1,233	2,652
D&A	241	273	330	349	366
Change in WC	746	839	2,928	682	306
Others	(206)	18	(1,810)	(296)	137
Operating CF	2,423	4,510	1,752	1,968	3,460
Capex	(447)	(725)	(417)	(429)	(442)
Associates	-	-	-	-	-
Others	(4,293)	(1,352)	1,772	(69)	(69)
Investing CF	(4,739)	(2,076)	1,355	(498)	(511)
Equity raised	5,846	10,923	-	-	-
Change of Debts	-	-	-	-	-
Others	-	-	-	-	-
Financing CF	5,846	10,923	-	-	-
Net change in cash	2,387	(2,106)	3,107	1,470	2,949
Cash (beg of yr)	3,617	6,004	3,898	7,006	8,475
FX	-	-	-	-	-
Cash (end of yr)	6,004	3,898	7,006	8,475	11,425

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	8,278	23,410	22,024	22,779	23,699
Fixed asset	1,296	2,256	2,412	2,562	2,707
Long-term investments	4,592	2,363	822	1,427	2,201
Intangible assets	75	3,180	3,180	3,180	3,180
Others	2,316	15,610	15,610	15,610	15,610
Current assets	17,483	28,800	31,778	33,340	36,581
Cash	6,004	3,894	7,006	8,475	11,425
Deposit over 3 months	7,327	16,771	17,424	17,424	17,424
Account receivable	1,217	1,733	705	746	874
Others	2,934	6,403	6,643	6,695	6,859
Current liabilities	3,846	7,638	8,208	8,594	9,334
Borrowings	-	116	-	-	-
Account payable	115	125	141	149	162
Tax payable	236	452	452	452	452
Accrued expenses	2,414	4,673	5,307	5,603	6,089
Other	1,082	2,273	2,309	2,390	2,632
Non-current liabilities	119	5,688	5,670	5,683	5,723
Convertible debt	-	5,009	5,009	5,009	5,009
Other long-term liabilities	119	679	662	674	715
MI	2,857	5,352	5,469	5,469	5,469
Total net assets	21,796	38,884	39,924	41,842	45,222
Shareholders' equity	18,939	33,532	34,455	36,373	39,753

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Live broadcasting	94.4	93.9	94.8	93.7	92.4
Others	0.0	0.0	0.0	0.0	0.0
Total	5.6	6.1	5.2	6.3	7.6
Growth rate (%)	100.0	100.0	100.0	100.0	100.0
Revenue					
Gross profit					
EBIT	36.0	62.2	(7.4)	5.7	17.2
Net profit	25.8	46.7	1.9	15.4	23.0
P&L ratios (%)	(34.1)	105.8	(51.2)	47.1	47.0
Operating margin					
Pre-tax margin					
Adj. net margin	16.7	4.2	0.5	3.7	8.2
Effective tax rate	16.1	16.5	1.1	3.9	8.4
Returns (%)	(18.8)	(13.0)	(19.0)	(19.0)	(19.0)
ROE					
ROA	9.9	11.1	2.9	6.0	6.9
Per share	8.2	8.7	2.1	4.3	4.9
EPS (RMB)					
DPS (RMB)					
BVPS (RMB)	49.3	28.8	23.1	33.8	49.5

Source: Company data, CMBIS estimates

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CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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