

HUYA (HUYA US)

Looking at game monetization and better margin

Huya delivered better-than-feared 3Q23 results, with rev 8% above consensus and adj. NPM at 6.3% (vs. consensus of -4.1%). Livestreaming headwinds might linger into 4Q23E, but well priced in. We suggest focusing on its game monetization and better margin outlook in FY24E. We forecast game-related rev to contribute >10% in FY24E, and 30% in FY25E. We lift our adj. NPM estimates by +2.4ppts/1.1ppts/2.8ppts in FY23/24/25E, on the back of its scaling game-related rev (higher margin), content optimization and prudent operation. We see Huya as a defensive name for its upcoming fundamental improvement, attractive valuation (US\$1.5bn net cash, vs. mkt cap of US\$886mn), active share repurchases and potential dividends program. Maintain BUY with a higher TP at US\$6.8. Suggest to buy on dips.

■ **Better-than-feared 3Q23.** Huya's 3Q23 rev declined 31% YoY (8% above consensus), with livestreaming -24% YoY and others -68% YoY. Livestreaming paying users dropped 23.6% YoY to 4.2mn in 3Q23, primarily on proactive business adjustments, soft macro and traffic shift towards offline activities. Shrinking others is attributable to the significant decrease in rev from content sub-licensing. Huya achieved a GPM of 13.9%, largely above consensus of 8.8%, mainly on lower rev-sharing fees and bandwidth costs. Coupled with prudent cost control, its adj. NPM beat consensus (-4.1%) and came in at 6.3%. During 3Q23, Huya repurchased 3.5mn ADRs with US\$9mn, representing 9% of the share repurchase program announced in Aug 2023.

■ **Moving beyond transition with better margin outlook.** Given livestreaming adjustments, we forecast rev to fall 28% YoY in 4Q23E. We think 4Q23E topline trend has already been priced in, and suggest looking at FY24E recovery with revenue resuming growth and a better margin outlook. We are positive on its new monetization opportunities (e.g. game distribution, in-game sales, game ads, etc.), by leveraging the Tencent eSports ecosystem. Huya tested water in the distribution of Maple Story Mobile <冒险岛>, and we expect more titles to come. We forecast game-related rev to contribute >10% in FY24E, and 30% in FY25E. On the margin front, we think Huya may turn profitable in FY23E (prior in FY24E) thanks to its better-than-expected GPM and stringent opex, despite ST dilution in 4Q23E on higher license cost. We lifted our adj. NPM estimates by +2.4ppts/1.1ppts/2.8ppts to 1.3%/1.6%/4.8% in FY23/24/25E, on the back of scaling game-related rev (higher margin), content optimization and prudent operation.

Maintain BUY. To reflect the better margin outlook, we raise our adj. NPM estimates by +2.4ppts/1.1ppts/2.8ppts in FY23/24/25E. Our DCF-based TP is lifted to US\$6.8. Further game monetization should boost a re-rating ahead, in our view.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY 25E
Revenue (RMB mn)	11,351	9,220	6,924	6,926	7,725
YoY growth (%)	4.0	(18.8)	(24.9)	0.0	11.5
Adj. net income (RMB mn)	454	(282)	90	111	367
Adj. EPS (RMB)	1.88	(1.2)	0.4	0.45	1.45
YoY growth (%)	(64.5)	NA	NA	NA	230.1
Consensus EPS (RMB)	NA	NA	(0.3)	0.3	1.3
P/E (x)	14.3	NA	NA	60.2	18.5
P/S (x)	0.57	0.70	0.93	0.93	0.83
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	4.3	(2.6)	0.8	1.0	3.2
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **US\$6.8**
 (Previous TP **US\$6.3**)
 Up/Downside **+83.8%**
 Current Price **US\$3.7**

China Entertainment Sector

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Stock Data

Mkt Cap (US\$ mn)	886
Avg 3 mths t/o (US\$ mn)	3.81
52w High/Low (US\$)	6.50/2.01
Total Issued Shares (mn)	90

Source: Bloomberg

Shareholding Structure

Teachers Insurance & Annuity	10.8%
Asso of America	
Goldman Sachs	7.9%
ARK Investment Management	6.0%

Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	10.7%	7.8%
3-mth	23.5%	22.4%
6-mth	7.2%	-4.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Figure 1: 3Q23 financial review

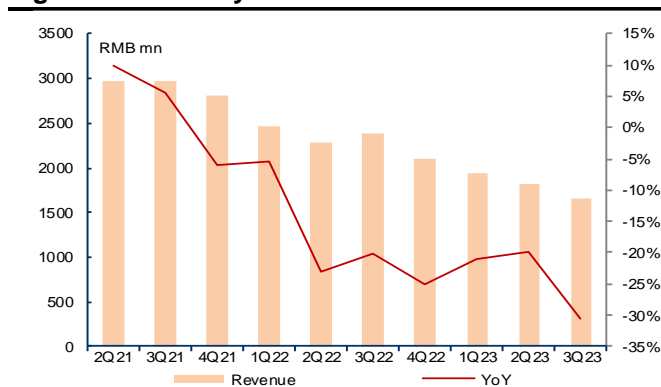
RMB mn	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	QoQ	YoY	Consensus	Diff %
Revenue	2,976	2,809	2,465	2,275	2,379	2,102	1,949	1,821	1,648	-7%	-31%	1,527	8%
Gross profit	504	1	334	219	342	(284)	256	273	228	6%	-33%	135	69%
Net profit	524	(313)	(3)	(19)	60	(524)	45	23	12	-48%	-80%	(83)	NA
Adj. net profit	180	(241.7)	47	6	106	(440)	86	115	103	35%	-3%	(63)	NA
Adj. EPS (RMB)	0.75	(1.00)	0.19	0.02	0.44	(1.81)	0.35	0.47	0.42	34%	-4%	(0.25)	NA
Margin (%)													
Gross margin	16.9%	0.0%	13.5%	9.6%	14.4%	-13.5%	13.2%	15.0%	13.9%			8.8%	
Operating margin	5.2%	-13.8%	-0.1%	-2.5%	2.4%	-26.1%	-0.5%	-0.1%	-1.1%			-10.7%	
Adj. net margin	6.0%	-8.6%	1.9%	0.3%	4.5%	-20.9%	4.4%	6.3%	6.3%			-4.1%	
Growth (%)													
Revenue (YoY)	5.7%	-6.1%	-5.4%	-23.2%	-20.1%	-25.2%	-20.9%	-19.9%	-30.7%			-38.0%	
Revenue (QoQ)	0.4%	-5.6%	-12.3%	-7.7%	4.5%	-11.6%	-7.3%	-6.6%	-9.5%			-27.4%	
Gross profit	-18.8%	-99.8%	-35.1%	-62.3%	-32.1%	NA	-23.1%	24.6%	-33.3%			-59.5%	
Adj. net profit	-50.2%	NA	-82.5%	-97.7%	-41.1%	NA	83.5%	1860.3%	-2.6%			NA	

Source: Company data, Bloomberg, CMBIGM

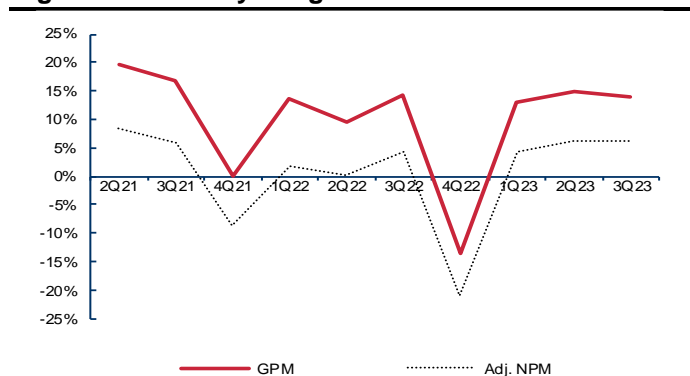
Figure 2: 3Q23 revenue breakdown

	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	QoQ	YoY
Revenue (RMB mn)	2,976	2,809	2,465	2,275	2,379	2,102	1,949	1,821	1,648	-9.5%	-30.7%
Live broadcasting	2,602	2,613	2,152	2,052	2,017	1,975	1,860	1,716	1,532	-10.7%	-24.1%
Others	374	196	313	223	361	127	89	106	116	9.8%	-67.9%

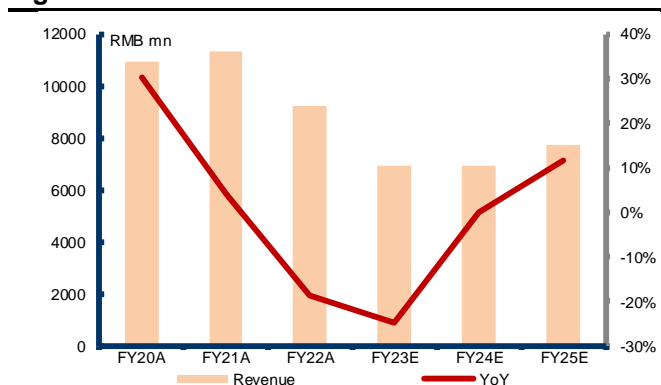
Source: Company data, CMBIGM

Figure 3: Quarterly revenue

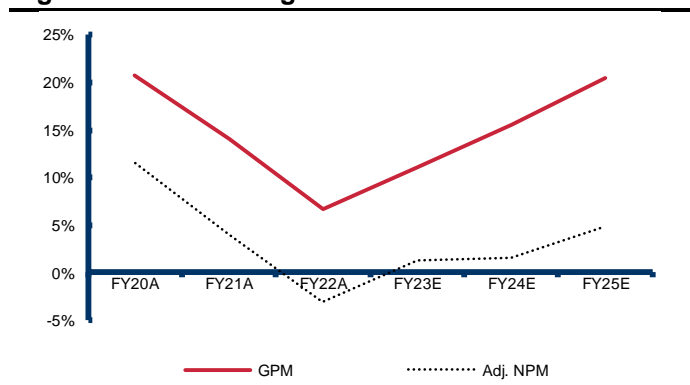
Source: Company data, CMBIGM

Figure 4: Quarterly margin

Source: Company data, CMBIGM

Figure 5: Annual rev estimates

Source: Company data, CMBIGM estimates

Figure 6: Annual margin estimates

Source: Company data, CMBIGM estimates

Figure 7: CMBIGM estimates vs consensus

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	6,924	6,926	7,725	6,777	6,630	7,373	2.2%	4.5%	4.8%
Gross profit	762	1,073	1,584	665	842	1,171	14.6%	27.5%	35.3%
Operating profit	(285)	(73)	248	(518)	(380)	(62)	NA	-80.8%	-497.9%
Adj. net profit	90	111	367	(111)	66	300	NA	69.5%	22.5%
EPS (RMB)	0.37	0.45	1.45	(0.34)	0.29	1.34	NA	56.0%	8.2%
Gross margin	11.0%	15.5%	20.5%	9.8%	12.7%	15.9%	+1.2ppts	+2.8ppts	+4.6ppts
Operating margin	-4.1%	-1.1%	3.2%	-7.6%	-5.7%	-0.8%	+3.5ppts	+4.7ppts	+4.0ppts
Net margin	1.3%	1.6%	4.8%	-1.6%	1.0%	4.1%	+2.9ppts	+0.6ppts	+0.7ppts

Source: Company data, Bloomberg, CMBIGM estimates

Figure 8: Earnings revision

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	6,924	6,926	7,725	6,682	6,615	7,393	3.6%	4.7%	4.5%
Gross profit	762	1,073	1,584	670	1,079	1,545	13.8%	-0.6%	2.5%
Operating profit	(285)	(73)	248	(312)	(167)	19	NA	-56.3%	1194.7%
Adj. net profit	90	111	367	(92)	31	173	NA	256.2%	112.1%
EPS (RMB)	0.37	0.45	1.45	(0.38)	0.13	0.68	NA	256.2%	112.1%
Gross margin	11.0%	15.5%	20.5%	9.7%	10.9%	12.7%	+1.3ppts	+4.6ppts	+7.9ppts
Operating margin	-4.1%	-1.1%	3.2%	-3.7%	-1.7%	0.3%	-0.4ppts	+0.7ppts	+2.9ppts
Net margin	1.3%	1.6%	4.8%	-1.1%	0.5%	2.0%	+2.4ppts	+1.1ppts	+2.8ppts

Source: Company data, CMBIGM estimates

Figure 9: DCF valuation

DCF valuation (RMB mn)										
	2023E	2024E	2025E	2026E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	(285)	(73)	248	287	324	360	392	419	443	463
Tax	0	(20)	(65)	(43)	(49)	(54)	(59)	(63)	(66)	(69)
D&A	137	151	166	182	200	220	242	267	293	323
Working capital	(326)	(52)	71	33	27	30	40	42	38	34
CAPEX	(63)	(66)	(69)	(73)	(77)	(80)	(84)	(89)	(93)	(98)
FCF	(538)	(60)	350	386	427	476	532	576	614	652
FCF Growth	NA	NA	NA	10%	10%	12%	12%	8%	7%	6%
Terminal Value										5,973
PV (FCF+ Terminal Value)	(538)	(53)	268	259	250	245	239	227	212	1,998

Assumptions

WACC	14.2%
Tax rate	20.0%
Risk free rate	3.6%
Cost of debt	0.0%
Beta	1.30
Market risk return	11.8%
Terminal growth rate	3.0%

Equity Value

PV	3,108
minus: Net cash	(9,229)
minus: Minority Interest	0
Equity Value	12,337
Shares (mn)	248
Target Price (US\$) based on DCF	6.8

		WACC				
Growth	1.5%	12.2%	13.2%	14.2%	15.2%	16.2%
	2.0%	7.1	6.9	6.7	6.5	6.4
	2.5%	7.2	6.9	6.7	6.5	6.4
	3.0%	7.3	7.0	6.8	6.6	6.4
	3.5%	7.3	7.1	6.8	6.6	6.5
	4.0%	7.4	7.1	6.9	6.7	6.5
	4.5%	7.5	7.2	6.9	6.7	6.5
		7.6	7.3	7.0	6.7	6.6

Source: Company data, CMBIGM estimates

Figure 10: Peers valuation

Company	Ticker	Mkt cap (USD mn)	Currency	Price	CMBI Rating	CMBI TP	PE			PS			FY23-25 EPS CAGR
							FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	
Huya	HUYA US	886	USD	3.7	BUY	6.8	73.3	60.2	18.5	0.9	0.9	0.8	120%
Game													
Tencent	700 HK	385,005	HKD	316	BUY	460	18.8	15.9	13.9	4.5	4.1	3.7	15%
NetEase	NTES US	73,705	USD	114	BUY	125	18.0	17.5	15.8	5.1	4.6	4.2	-3%
XD Inc.	2400 HK	861	HKD	14	NA	NA	30.9	16.4	11.5	1.6	1.3	1.2	65%
Average							18.4	16.6	13.7	3.7	3.3	3.0	6%
Livestreaming & VAS													
Momo	MOMO US	1,327	USD	7	HOLD	14	4.6	4.5	4.2	0.8	0.8	0.8	5%
YY	YY US	2,599	USD	42	BUY	51	11.3	11.2	9.8	1.1	1.1	1.0	11%
Bilibili	BILI US	6,142	USD	15	BUY	24	NA	NA	49.6	2.0	1.7	1.5	NA
Douyu	DOYU US	305	USD	1	NA	NA	17.9	17.9	18.0	0.4	0.4	0.4	45%
TME	TME US	13,145	USD	8	NA	NA	16.2	15.2	13.6	3.5	3.5	3.1	10%
Mango	300413 CH	7,301	CNY	28	NA	NA	24.3	20.4	17.7	3.6	3.2	2.9	18%
iQIYI	IQ US	4,762	USD	5	BUY	9	13.8	10.0	8.3	1.1	1.0	0.9	26%
Average							14.7	13.2	11.9	1.8	1.7	1.5	14%
Advertising													
Baidu	BIDU US	38,295	USD	110	BUY	199	10.6	10.5	9.4	2.1	1.9	1.7	6%
Weibo	WB US	2,731	USD	12	BUY	25	5.4	5.1	4.7	1.5	1.5	1.4	9%
Average							8.0	7.8	7.0	1.8	1.7	1.6	7%
Global entertainment													
Facebook	META US	864,271	USD	336	NA	NA	23.0	18.3	16.4	6.5	5.7	5.1	16%
Netflix	NFLX US	196,365	USD	449	NA	NA	35.8	27.5	22.5	5.8	5.1	4.6	27%
Snapchat	SNAP US	20,004	USD	12	NA	NA	NA	99.7	76.0	4.3	3.8	3.3	99%
Average							29.4	22.9	19.4	5.6	4.9	4.4	21%
Average							16.7	14.7	12.7	2.9	2.6	2.4	13%

Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenues	11,351	9,220	6,924	6,926	7,725
Live broadcasting	10,186	8,196	6,492	5,694	5,507
Others	1,165	1,025	432	1,232	2,218
COGS	(9,751)	(8,610)	(6,162)	(5,853)	(6,141)
Gross profit	1,600	611	762	1,073	1,584
R&D	(819)	(680)	(621)	(661)	(727)
S&M	(760)	(483)	(377)	(419)	(544)
G&A	(327)	(320)	(267)	(272)	(280)
Other income	275	166	100	88	85
Operating profit	(30)	(706)	(403)	(191)	116
Fair value change	44	8	(190)	-	-
Interest income	247	298	350	205	185
Other income and expenses	(1)	(58)	0	(0)	-
Pre-tax Income	260	(458)	(243)	14	302
Income Tax	(55)	(28)	-	(20)	(65)
Net profit	583	(487)	(243)	(6)	236
Adj. net profit	454	(282)	90	111	367

Cash flow summary

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Net income	583	(487)	(243)	(6)	236
D&A	113	124	137	151	166
Change in WC	(160)	(312)	(326)	(52)	71
Others	(134)	149	308	118	132
Operating CF	403	(525)	(125)	211	605
Capex	(124)	(130)	(137)	(143)	(151)
Others	(2,377)	(666)	-	-	-
Investing CF	(2,501)	(796)	(137)	(143)	(151)
Issuance of preference shares	-	-	-	-	-
Issuance of common shares	-	-	-	-	-
Others	595	-	-	-	-
Financing CF	595	-	-	-	-
Net change in cash	(1,503)	(1,322)	(261)	67	454
Cash (beg of yr)	3,294	1,791	469	208	275
Fx effect	-	-	-	-	-
Cash (end of yr)	1,791	469	208	275	729

Balance sheet

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Non-current assets	1,339	2,693	1,620	1,613	1,597
Property and equipment	80	201	186	167	142
Right-of-use assets	395	345	345	345	345
Intangible assets	84	58	72	85	94
Others	780	2,090	1,017	1,016	1,016
Current assets	11,916	10,454	9,987	10,054	10,515
Cash, and stricted cash	1,791	655	208	275	729
Accounts and notes receivables	88	76	57	57	64
Short-term deposits	8,352	9,018	9,018	9,018	9,018
Other current asset	1,686	704	704	704	704
Current liabilities	2,745	2,304	1,959	1,907	1,985
Accounts payables	13	23	16	15	16
Deferred revenue	460	446	435	425	416
Accruals	1,845	1,592	1,265	1,224	1,310
Others	427	243	243	243	243
Non-current liabilities	169	103	103	103	103
Lease liabilities	45	9	9	9	9
Deferred revenue	119	73	73	73	73
Deferred tax liabilities	5	21	21	21	21
Shareholders' equity	10,510	10,843	10,907	11,019	11,386

Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Sales mix (%)					
Live broadcasting	89.7	88.9	93.8	82.2	71.3
Others	10.3	11.1	6.2	17.8	28.7
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	4.0	(18.8)	(24.9)	0.0	11.5
Gross profit	(29.4)	(61.8)	24.8	40.8	47.6
EBIT	NA	NA	NA	NA	NA
Adj. net profit	NA	NA	NA	NA	230.1
P&L ratios (%)					
Operating margin	(0.3)	(7.7)	(5.8)	(2.8)	1.5
Pre-tax margin	2.3	(5.0)	(3.5)	0.2	3.9
Adj. net margin	4.0	(3.1)	1.3	1.6	4.8
Effective tax rate	(21.3)	6.1	0.0	(140.8)	(21.5)
Returns (%)					
ROE	4.3	(2.6)	0.8	1.0	3.2
ROA	3.4	(2.1)	0.8	1.0	3.0
Per share					
EPS (RMB)	1.9	(1.2)	0.4	0.4	1.4
DPS (RMB)	-	-	-	-	-
BVPS (RMB)	43.5	44.9	44.4	44.2	44.9

Source: Company data, CMBIGM estimates

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