

# JOYY Inc. (YY US)

## All round beat with higher Bigo guidance

YY delivered eye-catching 2Q20 results, with revenue/adj. net profit +36% YoY/+38% YoY, 14%/12% above consensus. 3Q20 rev guidance came in at +26.7%-29.9% YoY, midpoint 6% above consensus. We turn more bullish on Bigo's momentum, with higher FY20E rev guidance (+100% YoY, vs. previous +65% YoY), despite geographic risks. We raised its EPS by 1%/3%/1% in FY20/21/22E for stronger Bigo, and lifted our TP to US\$110 from US\$99 on higher Bigo's revenue.

- All round beat.** 2Q20 revenue grew 36% YoY (-7% pro-forma), 14%/14% above our estimates/ consensus. Adj. net profit grew 38% YoY (-5% pro-forma), 12% above consensus. Mgmt. guided solid 3Q20 rev at RMB5.85bn-RMB6.00bn (midpoint +28% YoY), 4%/6% above our estimates/consensus. YY also announced a quarterly dividend policy for the next three years, with US\$25mn quarterly dividend from 2Q20. We believe this result would drive its price up, after recent pullback on geographic risks.
- More bullish on Bigo's outlook, backed by higher rev guidance.** As stated in our preview report, we keep confident on Bigo's overseas expansion, with limited financial impact from ban in India (< 5%/2% of Bigo/JOYY rev) and potential risk in US (~10%/4% of Bigo/JOYY rev). We are impressed by Bigo's momentum, which was up 149% YoY in 2Q20 (vs. consensus of 70%-80% YoY), backed by outperformance in SEA and developed market. Mgmt. raised Bigo's FY20E rev guidance, at +100% YoY (vs. previous +65% YoY). Given overseas livestreaming TAM of over US\$10bn, we believe Bigo is still at early development, and its monthly breakeven target in 4Q20E stays intact. We forecast its adj. net loss at US\$70mn in FY20E (vs. previous US\$100mn).
- YY Core slightly soft on epidemic and regulation.** YY Core's revenue declined 9.1% YoY in 2Q20, slightly below our estimate, mainly on epidemic impact and regulation headwinds. We expect YY Core to decrease 5% YoY in 3Q20E, with stable non-GAAP OPM at 21%.
- Maintain BUY.** To reflect better outlook of Bigo, we raised its EPS by 1%/3%/1% in FY20/21/22E, and lifted our SOTP-based TP from US\$99 to US\$110 (22x FY21E P/E). Maintain BUY.

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	15,764	25,576	24,993	27,751	32,399
YoY growth (%)	36.0	62.2	-2.3	11.0	16.7
Net income (RMB mn)	3,196	4,327	2,251	3,231	4,605
Adj. EPS (RMB)	49.25	28.79	24.56	35.13	49.86
YoY growth (%)	11.0	(41.6)	(14.7)	43.0	41.9
Consensus EPS (RMB)	NA	NA	25.60	35.83	47.02
P/E (x)	11.9	20.4	23.9	16.7	11.8
P/B (x)	1.7	1.0	1.1	1.0	1.0
Yield (%)	0.0	0.0	1.1	1.5	1.5
ROE (%)	9.9	11.1	2.9	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\$110.0
(Previous TP)	US\$99.0
Up/Downside	+32.5%
Current Price	US\$83.0

### China Internet Sector

#### Sophie Huang

(852) 3900 0889

sophiehuang@cmbi.com.hk

#### Stock Data

Mkt Cap (US\$ mn)	6,458
Avg 3 mths t/o (US\$ mn)	97.0
52w High/Low (US\$)	99/41
Total Issued Shares (mn)	62.0

Source: Bloomberg

#### Shareholding Structure

Lei Jun	28.5%
Morgan Stanley	5.7%
Capital Group	5.2%

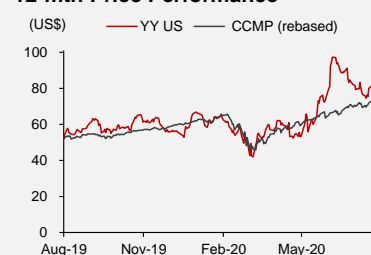
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	-2.0%	-5.5%
3-mth	47.8%	20.8%
6-mth	24.8%	10.2%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

#### Auditor: PwC

#### Related Reports

1. Bigo intact despite geographic headwinds – 30 Jul 2020
2. More bullish on Bigo's overseas expansion – 22 May 2020
3. Expecting solid 1Q20E on track – 7 May 2020

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**Figure 1: 2Q20 financial review (pro-forma)**

RMB mn	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	QoQ	YoY	Consensus	Diff %	CMBI	Diff %
Revenue	4,781	6,295	6,882	7,618	7,149	5,840	-18.3%	-7.2%	5,132	14%	5,142	14%
Operating profit	474	72	160	362	186	95	-48.9%	32.3%	39	145%	29	228%
Net profit	3,104	107	178	156	370	602	62.8%	463.1%	778	-23%	445	35%
Adj. net profit	654	520	693	601	429	494	15.1%	-5.1%	440	12%	398	24%
Adj. EPS (RMB)	9.32	5.14	6.42	6.70	4.80	5.57	16.0%	8.4%	5.00	11%	4.35	28%
<b>Margin (%)</b>												
Gross margin	33.9%	33.7%	31.5%	33.0%	30.8%	35.5%			36.7%		36.2%	
Operating margin	9.9%	1.1%	2.3%	4.8%	2.6%	1.6%			0.8%		0.6%	
Adj. net margin	13.7%	8.3%	10.1%	7.9%	6.0%	8.5%			8.6%		7.7%	
<b>Growth (%)</b>												
Revenue (YoY)	47.1%	66.8%	67.8%	64.2%	49.6%	-7.2%			-18.5%		-18.3%	
Revenue (QoQ)	3.0%	31.7%	9.3%	10.7%	-6.2%	-18.3%			-28.2%		-28.1%	
Operating profit	-20.6%	-89.9%	-73.8%	-49.6%	-60.6%	32.3%			-46.0%		-59.7%	
Adj. net profit	-6.6%	-35.8%	-11.9%	-29.1%	-34.4%	-5.1%			-15.5%		-23.4%	

Source: Company data, Bloomberg, CMBIS estimates

**Figure 2: Revenue breakdown (pro-forma)**

RMB mn	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	QoQ	YoY
<b>Total revenue</b>	<b>3,249</b>	<b>3,773</b>	<b>4,100</b>	<b>4,641</b>	<b>4,781</b>	<b>6,295</b>	<b>6,882</b>	<b>7,618</b>	<b>7,149</b>	<b>5,840</b>	<b>-18.3%</b>	<b>-7.2%</b>
<b>by segment</b>												
Live broadcasting	2,032	3,560	3,895	4,391	4,485	5,923	6,474	7,147	6,756	5,608	-17.0%	-5.3%
Others	258	32	206	249	296	372	408	472	393	232	-40.9%	-37.6%
<b>by platform</b>												
YY Live	2,407	2,735	2,824	3,136	2,753	3,054	3,080	3,346	2,631	2,777	5.6%	-9.1%
Huya	844	1,038	1,277	1,505	1,631	2,010	2,265	2,467	2,412	NA	NA	NA
Bigo					396	1,231	1,537	1,804	2,107	3,063	45.4%	148.8%

Source: Company data

**Figure 3: SOTP valuation**

SOTP		Metrics		Multiple	Shareholding	Valuation
(Rmb mn)	Rev	Net profit				Valuation
YY Live	FY21E 10,874	1,794	8x P/E	100%		14,353
Huya	Based on mkt cap			31%		11,067
BIGO	FY21E 16,877	NA	3.0x P/S	100%		50,632
<b>Total</b>						<b>76,052</b>
Net cash						10,323
Holding discount						20%
<b>Equity Value (Rmb mn)</b>						<b>69,100</b>
<b>Target Price (US\$)</b>						<b>110</b>

Source: Company data, CMBIS estimates

**Figure 4: CMBIS estimates vs consensus**

RMB mn, Dec-YE	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	24,993	27,751	32,399	23,989	26,019	29,839	4.2%	6.7%	8.6%
Gross Profit	9,173	10,704	12,690	8,480	9,802	11,520	8.2%	9.2%	10.2%
Operating Profit	209	986	2,373	915	1,701	2,520	-77.1%	-42.0%	-5.8%
Net profit	2,251	3,231	4,605	2,319	3,317	4,379	-2.9%	-2.6%	5.2%
Adj. EPS (RMB)	24.56	35.13	49.86	25.60	35.83	47.02	-4.0%	-2.0%	6.0%
Gross Margin	36.7%	38.6%	39.2%	35.3%	37.7%	38.6%	+1.4ppts	+0.9ppts	+0.6ppts
Operating Margin	0.8%	3.6%	7.3%	3.8%	6.5%	8.4%	-3.0ppts	-3.0ppts	-1.1ppts
Net Margin	9.0%	11.6%	14.2%	9.7%	12.7%	14.7%	-0.7ppts	-1.1ppts	-0.5ppts

Source: CMBIS estimates, Bloomberg

**Figure 5: Earnings revision**

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	24,993	27,751	32,399	23,753	25,032	29,342	5.2%	10.9%	10.4%
Gross Profit	9,173	10,704	12,690	8,714	9,828	12,100	5.3%	8.9%	4.9%
Operating Profit	209	986	2,373	236	950	2,414	-11.2%	3.8%	-1.7%
Net profit	2,251	3,231	4,605	2,223	3,128	4,578	1.3%	3.3%	0.6%
Adj. EPS (RMB)	24.56	35.13	49.86	24.26	34.01	49.56	1.2%	3.3%	0.6%
Gross Margin	36.7%	38.6%	39.2%	36.7%	39.3%	41.2%	+0.0ppts	-0.7ppts	-2.0ppts
Operating Margin	0.8%	3.6%	7.3%	1.0%	3.8%	8.2%	-0.2ppts	-0.2ppts	-0.9ppts
Net Margin	9.0%	11.6%	14.2%	9.4%	12.5%	15.6%	-0.4ppts	-0.9ppts	-1.4ppts

Source: CMBIS estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Revenue</b>	15,764	25,576	24,993	27,751	32,399
Live broadcasting	14,878	24,028	23,537	25,922	30,077
Others	886	1,548	1,457	1,829	2,322
<b>COGS</b>	(10,017)	(17,148)	(15,820)	(17,047)	(19,709)
<b>Gross profit</b>	5,746	8,428	9,173	10,704	12,690
S&M	(1,149)	(3,740)	(5,088)	(5,652)	(5,875)
Admin. Exp.	(883)	(1,489)	(1,466)	(1,477)	(1,578)
R&D	(1,192)	(2,535)	(2,746)	(2,915)	(3,188)
Others	118	405	336	325	325
<b>Operating profit</b>	2,640	1,068	209	986	2,373
Financial income	486	734	698	607	607
Other income	(590)	2,407	(554)	(554)	(554)
<b>Pre-tax Income</b>	2,535	4,208	353	1,039	2,426
Income Tax	(478)	(547)	(276)	(377)	(591)
MI	20	(255)	(117)	-	-
Share of equity inv	59	39	300	605	774
Net profit	1,642	3,379	260	1,267	2,610
<b>Adj. net profit</b>	3,196	4,327	2,251	3,231	4,605

### Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Net income</b>	1,642	3,379	377	1,267	2,610
D&A	241	273	330	349	366
Change in WC	746	839	2,928	982	458
Others	(206)	18	(1,445)	(355)	(72)
<b>Operating CF</b>	2,423	4,510	2,190	2,242	3,361
Capex	(447)	(725)	(417)	(429)	(442)
Associates	-	-	-	-	-
Others	(4,293)	(1,352)	1,772	(69)	(69)
<b>Investing CF</b>	(4,739)	(2,076)	1,355	(498)	(511)
Equity raised	5,846	10,923	-	-	-
Change of Debts	-	-	-	-	-
Others	-	-	-	-	-
<b>Financing CF</b>	5,846	10,923	-	-	-
<b>Net change in cash</b>	2,387	(2,106)	3,545	1,744	2,850
Cash (beg of yr)	3,617	6,004	3,898	7,444	9,187
FX	-	-	-	-	-
<b>Cash (end of yr)</b>	6,004	3,898	7,444	9,187	12,037

### Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Non-current assets</b>	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
<b>Current assets</b>	17,483	28,800	32,306	34,236	37,401
Cash	6,004	3,894	7,444	9,187	12,037
Deposit over 3 months	7,327	16,771	17,424	17,424	17,424
Account receivable	1,217	1,733	745	827	965
Others	2,934	6,403	6,693	6,798	6,975
<b>Current liabilities</b>	3,846	7,638	8,585	9,204	9,829
Borrowings	-	116	-	-	-
Account payable	115	125	149	161	171
Tax payable	236	452	452	452	452
Accrued expenses	2,414	4,673	5,597	6,044	6,405
Other	1,082	2,273	2,388	2,547	2,802
<b>Non-current liabilities</b>	119	5,688	5,683	5,708	5,752
Convertible debt	-	5,009	5,009	5,009	5,009
Other long-term liabilities	119	679	674	700	744
MI	2,857	5,352	5,469	5,469	5,469
Total net assets	21,796	38,884	40,062	42,103	45,518
<b>Shareholders' equity</b>	18,939	33,532	34,593	36,634	40,049

### Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Sales mix (%)</b>					
Live broadcasting	94.4	93.9	94.2	93.4	92.8
Others	5.6	6.1	5.8	6.6	7.2
<b>Total</b>	100.0	100.0	100.0	100.0	100.0
<b>Growth rate (%)</b>					
Revenue	36.0	62.2	(2.3)	11.0	16.7
Gross profit	25.8	46.7	8.8	16.7	18.6
EBIT	(2.2)	(59.5)	(80.4)	370.7	140.7
Net profit	(34.1)	105.8	(48.0)	43.5	42.6
<b>P&amp;L ratios (%)</b>					
Operating margin	16.7	4.2	0.8	3.6	7.3
Pre-tax margin	16.1	16.5	1.4	3.7	7.5
Adj. net margin	20.3	16.9	9.0	11.6	14.2
Effective tax rate	(18.8)	(13.0)	(19.0)	(19.0)	(19.0)
<b>Returns (%)</b>					
ROE	9.9	11.1	2.9	6.0	6.9
ROA	8.2	8.7	2.1	4.3	4.9
<b>Per share</b>					
EPS (RMB)	49.3	28.8	24.6	35.1	49.9
DPS (RMB)	0.0	0.0	6.5	8.6	8.6
BVPS (RMB)	358.4	639.5	566.7	601.8	645.1

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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