

Momo (MOMO US)

Heading into Tantan's transition

Momo 1Q21 results beat on low expectation, with revenue/adj. net profit -3%/-14% YoY, 2%/20% above consensus. 2Q21E rev guidance beat 1%. Tantan's user and financials would bear short-term pressure, given Tantan's mgmt. change and strategy adjustment. Its net loss would widen to RMB350mn-450mn in FY21E. Mgmt expects Tantan to rebound in 2H21E, if executed well. Momo core trends well, and mgmt. guided to turn positive YoY growth in 2H21E. To reflect Tantan's transition impact, we cut our earnings forecast by 21%/19%/19% in FY21/22/23E, but maintain our TP at US\$15.0 (12x FY21E P/E).

- 1Q21 beat on low expectation, with guidance in line.** 1Q21 rev/adj. net profit -3%/-14% YoY, 2%/20% above consensus. Margin beat on lighter S&M and G&A. 2Q21E rev guidance came in at -4% to -7% YoY, midpoint 1% above consensus. User metrics is mixed, with Momo MAU +1% QoQ & paying users -2% QoQ/ Tantan paying users -8% QoQ.
- ST pressure from Tantan transition with mgmt. change.** In Apr, Tantan's founder & CEO Wang Yu stepped down, and Wang Li is taking over the role. After the adjustment, mgmt. targets Tantan 20-35% user growth by the end of 2021, with more younger generations and balanced gender mix in new users. The transition would pose temporary pressure on user trend and rev growth, particularly in Apr and May. Besides, Tantan would enhance its user experience and dating ecosystem by removing some short-term oriented rev efforts, thus affecting paying conversion temporarily. In terms of monetization, mgmt. plans to strengthen its core dating experience, while deemphasize livestreaming. Mgmt expects both users and rev to rebound in 2H21E, if executed well. Given slower monetization & heavier marketing ahead in this transition, mgmt. guided Tantan's net loss at RMB350mn-450mn in FY21E (vs. previously RMB100mn).
- Momo to see positive YoY growth in 2H21E.** Momo core trends well with stable recovery, and mgmt. stated that it has fully completed the adjustment. Looking ahead, momo core would focus more on product enhancement, rather than aggressive VAS monetization. Mgmt. expects momo rev to turn positive YoY growth in 2H21E, with double-digit YoY growth in 4Q21E.
- Maintain HOLD.** We cut our earnings forecast by 21%/19%/19% in FY21/22/23E, but maintain our TP at US\$15.0. Given multiple challenges, we suggest to wait for more clear signs for Tantan reform.

Earnings Summary

| (YE 31 Dec) | FY19A | FY20A | FY21E | FY22E | FY23E |
|---------------------|----------|----------|----------|----------|----------|
| Revenue (RMB mn) | 17,142 | 15,024 | 14,636 | 16,458 | 18,916 |
| YoY growth (%) | 22.5 | (12.4) | (2.6) | 12.4 | 14.9 |
| Net income (RMB mn) | 4,304 | 2,896 | 2,043 | 3,026 | 3,745 |
| EPS (RMB) | 18.9 | 15.9 | 8.7 | 11.8 | 12.9 |
| YoY growth (%) | 12.3 | (16.5) | (45.8) | 48.6 | 21.4 |
| Consensus EPS (RMB) | NA | NA | 11.4 | 13.7 | 15.7 |
| P/E (x) | 5.2 | 6.2 | 11.4 | 7.7 | 6.3 |
| P/B (x) | 2.6 | 2.2 | 2.4 | 2.3 | 2.1 |
| Yield (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| ROE (%) | 29.8 | 23.5 | 11.5 | 18.7 | 23.4 |
| Net gearing (%) | Net cash | Net cash | Net cash | Net cash | Net cash |

Source: Company data, Bloomberg, CMBIS estimates

HOLD (Maintain)

| | |
|---------------|-----------|
| Target Price | US\$15.0 |
| (Previous TP) | US\$15.0) |
| Up/Downside | +6.4% |
| Current Price | US\$14.1 |

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Stock Data

| | |
|--------------------------|--------------|
| Mkt Cap (US\$ mn) | 2,865 |
| Avg 3 mths t/o (US\$ mn) | 41.34 |
| 52w High/Low (US\$) | 21.15/ 12.01 |
| Total Issued Shares (mn) | 166 |

Source: Bloomberg

Shareholding Structure

| | |
|------------------|------|
| Renaissance Tech | 8.2% |
| Investco | 5.3% |
| BlackRock | 4.4% |

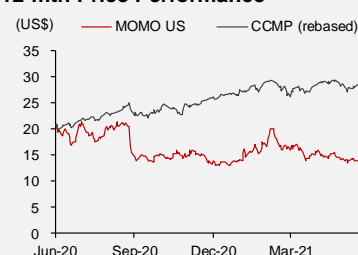
Source: Bloomberg

Share Performance

| | Absolute | Relative |
|-------|----------|----------|
| 1-mth | -2.3% | -3.5% |
| 3-mth | -15.9% | -21.4% |
| 6-mth | 2.3% | -7.7% |

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

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- Soft guidance with structural adjustment – 2 Dec 2020

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Figure 1: CMBIS estimates vs consensus

| RMB mn, Dec-YE | CMBIS | | | Consensus | | | Diff (%) | | |
|------------------|--------|--------|--------|-----------|--------|--------|----------|----------|----------|
| | FY21E | FY22E | FY23E | FY21E | FY22E | FY23E | FY21E | FY22E | FY23E |
| Revenue | 14,636 | 16,458 | 18,916 | 15,130 | 16,911 | 18,835 | -3.3% | -2.7% | 0.4% |
| Gross Profit | 6,502 | 7,415 | 8,629 | 6,711 | 7,618 | 8,533 | -3.1% | -2.7% | 1.1% |
| Operating Profit | 1,362 | 2,505 | 3,166 | 1,945 | 2,574 | 3,186 | -30.0% | -2.7% | -0.6% |
| Net profit | 2,043 | 3,026 | 3,745 | 2,523 | 3,080 | 3,697 | -19.0% | -1.7% | 1.3% |
| EPS (RMB) | 8.74 | 11.79 | 12.90 | 11.35 | 13.69 | 15.72 | -23.0% | -13.9% | -17.9% |
| Gross Margin | 44.4% | 45.1% | 45.6% | 44.4% | 45.0% | 45.3% | +0.1ppts | +0.0ppts | +0.3ppts |
| Operating Margin | 9.3% | 15.2% | 16.7% | 12.9% | 15.2% | 16.9% | -3.5ppts | -0.0ppts | -0.2ppts |
| Net Margin | 14.0% | 18.4% | 19.8% | 16.7% | 18.2% | 19.6% | -2.7ppts | +0.2ppts | +0.2ppts |

Source: Company data, Bloomberg

Figure 2: Earnings revision

| RMB mn, Dec-YE | New | | | Old | | | Diff (%) | | |
|------------------|--------|--------|--------|--------|--------|--------|----------|----------|----------|
| | FY21E | FY22E | FY23E | FY21E | FY22E | FY23E | FY21E | FY22E | FY23E |
| Revenue | 14,636 | 16,458 | 18,916 | 15,038 | 16,631 | 19,111 | -2.7% | -1.0% | -1.0% |
| Gross Profit | 6,502 | 7,415 | 8,629 | 6,715 | 7,993 | 9,381 | -3.2% | -7.2% | -8.0% |
| Operating Profit | 1,362 | 2,505 | 3,166 | 2,111 | 3,326 | 4,152 | -35.5% | -24.7% | -23.8% |
| Net profit | 2,043 | 3,026 | 3,745 | 2,573 | 3,725 | 4,600 | -20.6% | -18.8% | -18.6% |
| EPS (RMB) | 8.74 | 11.79 | 12.90 | 11.00 | 14.52 | 15.85 | -20.6% | -18.8% | -18.6% |
| Gross Margin | 44.4% | 45.1% | 45.6% | 44.7% | 48.1% | 49.1% | -0.2ppts | -3.0ppts | -3.5ppts |
| Operating Margin | 9.3% | 15.2% | 16.7% | 14.0% | 20.0% | 21.7% | -4.7ppts | -4.8ppts | -5.0ppts |
| Net Margin | 14.0% | 18.4% | 19.8% | 17.1% | 22.4% | 24.1% | -3.2ppts | -4.0ppts | -4.3ppts |

Source: CMBIS estimates

Figure 3: Momo's 1Q21 review

| RMB mn | 1Q19 | 2Q19 | 3Q19 | 4Q19 | 1Q20 | 2Q20 | 3Q20 | 4Q20 | 1Q21 | QoQ | YoY | Consensus | Diff % |
|-------------------|--------|-------|-------|-------|--------|--------|--------|--------|--------|--------|--------|-----------|--------|
| Revenue | 3,723 | 4,153 | 4,452 | 4,688 | 3,594 | 3,868 | 3,767 | 3,795 | 3,471 | -8.6% | -3.4% | 3,404 | 2% |
| Operating profit | 422 | 966 | 1,033 | 1,249 | 594 | 813 | 531 | 88 | 480 | 443.3% | -19.2% | 360 | 33% |
| Net profit | 289 | 789 | 945 | 1,056 | 539 | 456 | 457 | 651 | 462 | -29.1% | -14.3% | 348 | 33% |
| Adj. net profit | 910 | 928 | 1,088 | 1,253 | 736 | 669 | 654 | 836 | 634 | -24.2% | -13.9% | 526 | 20% |
| Adj. EPS | 4.15 | 4.12 | 4.90 | 5.61 | 3.34 | 3.05 | 2.98 | 3.80 | 2.91 | -23.4% | -12.9% | 2.41 | 21% |
| Margin (%) | | | | | | | | | | | | | |
| Gross Margin | 50.3% | 50.9% | 51.1% | 49.8% | 47.8% | 47.4% | 47.0% | 46.2% | 44.2% | | | 44.5% | |
| Operating margin | 11.3% | 23.3% | 23.2% | 26.7% | 16.5% | 21.0% | 14.1% | 2.3% | 13.8% | | | 10.6% | |
| Adj. net margin | 24.5% | 22.4% | 24.4% | 26.7% | 20.5% | 17.3% | 17.4% | 22.0% | 18.3% | | | 15.5% | |
| Growth (%) | | | | | | | | | | | | | |
| Revenue (YoY) | 34.7% | 31.7% | 22.0% | 22.0% | -3.5% | -6.8% | -15.4% | -19.0% | -3.4% | | | -5.3% | |
| Revenue (QoQ) | -3.1% | 11.5% | 7.2% | 5.3% | -23.3% | 7.6% | -2.6% | 0.8% | -8.6% | | | -10.3% | |
| Operating profit | -55.0% | 7.7% | 60.4% | 57.4% | 40.9% | -15.8% | -48.6% | -92.9% | -19.2% | | | -39.3% | |
| Adj. net profit | 0.7% | 4.9% | 45.2% | 41.1% | -19.1% | -27.9% | -39.9% | -33.2% | -13.9% | | | -28.5% | |

Source: Company data, Bloomberg

Figure 4: 1Q21 Revenue breakdown

| RMB mn | 1Q19 | 2Q19 | 3Q19 | 4Q19 | 1Q20 | 2Q20 | 3Q20 | 4Q20 | 1Q21 | QoQ | YoY |
|----------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|------------|------------|
| Total revenue | 3,723 | 4,153 | 4,452 | 4,688 | 3,594 | 3,868 | 3,767 | 3,795 | 3,471 | -9% | -3% |
| Live broadcasting | 2,689 | 3,100 | 3,275 | 3,383 | 2,332 | 2,603 | 2,375 | 2,328 | 1,962 | -16% | -16% |
| VAS | 904 | 948 | 1,065 | 1,189 | 1,176 | 1,204 | 1,331 | 1,401 | 1,456 | 4% | 24% |
| Mobile marketing | 81 | 76 | 82 | 93 | 57 | 38 | 50 | 53 | 39 | -26% | -32% |
| Mobile games | 39 | 23 | 16 | 14 | 13 | 12 | 8 | 7 | 11 | 52% | -12% |
| Other services | 10 | 5 | 14 | 8 | 16 | 12 | 3 | 6 | 3 | -49% | -81% |

Source: Company data, CMBIS estimates

Financial Summary

Income statement

| YE 31 Dec (RMB mn) | FY19A | FY20A | FY21E | FY22E | FY23E |
|-------------------------|---------|---------|---------|---------|----------|
| Revenue | 17,142 | 15,024 | 14,636 | 16,458 | 18,916 |
| Live streaming | 12,540 | 9,638 | 7,433 | 7,749 | 8,494 |
| VAS | 4,138 | 5,112 | 6,865 | 8,321 | 9,988 |
| Mobile game | 334 | 198 | 186 | 227 | 238 |
| Marketing | 93 | 40 | 138 | 145 | 177 |
| Other services | 37 | 37 | 14 | 16 | 19 |
| COGS | (8,455) | (7,977) | (8,134) | (9,042) | (10,286) |
| Gross profit | 8,687 | 7,047 | 6,502 | 7,415 | 8,629 |
| S&M | (2,458) | (2,814) | (3,315) | (2,945) | (3,208) |
| Admin.Exp. | (849) | (763) | (502) | (522) | (587) |
| R&D | (917) | (1,168) | (807) | (841) | (968) |
| Others | (1,069) | 229 | (592) | (658) | (757) |
| Operating profit | 3,743 | 2,531 | 1,362 | 2,505 | 3,166 |
| Financial Cost | 371 | 366 | 399 | 427 | 541 |
| Associates | 14 | 2 | 11 | 24 | 24 |
| Pre-tax Income | 4,128 | 2,899 | 1,773 | 2,956 | 3,731 |
| Income Tax | (891) | (756) | (319) | (591) | (746) |
| MI | (10) | (3) | (3) | (3) | (3) |
| Net profit | 3,206 | 2,103 | 1,457 | 2,368 | 2,988 |
| Adj. net profit | 4,304 | 2,896 | 2,043 | 3,026 | 3,745 |

Cash flow summary

| YE 31 Dec (RMB mn) | FY19A | FY20A | FY21E | FY22E | FY23E |
|---------------------------|---------|---------|---------|---------|---------|
| Net income | 3,090 | 2,873 | 1,354 | 2,365 | 2,985 |
| D&A | 345 | 312 | 295 | 326 | - |
| Change in WC | 352 | 75 | (536) | 209 | 351 |
| Others | 603 | 2,694 | 623 | 567 | 658 |
| Operating CF | 4,280 | 3,081 | 3,868 | 1,680 | 3,558 |
| Capex | (148) | (358) | 16 | (185) | (143) |
| Associates | - | - | - | - | - |
| Others | (3,777) | (390) | 907 | (162) | (1,109) |
| Investing CF | (3,925) | (748) | 923 | (347) | (1,252) |
| Equity raised | 900 | 99 | (99) | - | 104 |
| Change of Debts | - | - | - | - | - |
| Others | (1,670) | (1,597) | (2,721) | (2,260) | (3,669) |
| Financing CF | (770) | (1,498) | (2,820) | (2,260) | (3,565) |
| Net change in cash | 138 | 834 | (217) | 951 | (725) |
| Cash (beg of yr) | 2,409 | 2,613 | 3,456 | 3,385 | 4,336 |
| FX | 204 | (81) | - | - | - |
| Cash (end of yr) | 2,613 | 3,366 | 3,240 | 4,336 | 3,611 |

Balance sheet

| YE 31 Dec (RMB mn) | FY19A | FY20A | FY21E | FY22E | FY23E |
|-----------------------------|--------|--------|--------|--------|--------|
| Non-current assets | 6,449 | 11,474 | 6,483 | 7,473 | 13,540 |
| Fixed asset | 358 | 544 | 402 | 484 | 642 |
| Associates | 280 | 291 | 301 | 302 | 302 |
| Intangible assets | - | - | - | - | - |
| Others | 5,613 | 10,475 | 5,604 | 6,440 | 12,361 |
| Current assets | 15,225 | 11,747 | 15,900 | 19,372 | 13,862 |
| Cash | 2,519 | 3,366 | 3,240 | 4,770 | 3,972 |
| Deposit over 3 months | 11,869 | 7,566 | 11,850 | 13,618 | 8,929 |
| Account receivable | 256 | 201 | 230 | 317 | 237 |
| Others | 582 | 614 | 581 | 667 | 724 |
| Current liabilities | 2,513 | 2,517 | 2,022 | 2,607 | 2,970 |
| Borrowings | 689 | 699 | 568 | 706 | 825 |
| Account payable | 689 | 699 | 568 | 706 | 825 |
| Tax payable | - | - | - | - | - |
| Others | 1,136 | 1,118 | 887 | 1,194 | 1,319 |
| NC liabilities | 5,936 | 5,868 | 5,927 | 6,811 | 6,925 |
| Borrowings | - | - | - | - | - |
| Others | 5,936 | 5,868 | 5,927 | 6,811 | 6,925 |
| MI | - | - | - | - | - |
| Total net assets | 13,225 | 14,835 | 14,434 | 17,427 | 17,507 |
| Shareholders' equity | 13,225 | 14,835 | 14,434 | 17,427 | 17,507 |

Key ratios

| YE 31 Dec | FY19A | FY20A | FY21E | FY22E | FY23E |
|---------------------------|--------|--------|--------|--------|--------|
| Sales mix (%) | | | | | |
| Live streaming | 73.2 | 65.9 | 50.8 | 47.1 | 44.9 |
| VAS | 24.1 | 32.2 | 46.9 | 50.6 | 52.8 |
| Mobile game | 2.0 | 1.2 | 1.3 | 1.4 | 1.3 |
| Mobile marketing | 0.5 | 0.6 | 0.9 | 0.9 | 0.9 |
| Other services | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Growth rate (%) | | | | | |
| Revenue | 21.3 | (4.7) | (10.1) | 12.4 | 14.9 |
| Gross profit | 31.7 | (8.3) | (18.2) | 14.0 | 16.4 |
| EBIT | 7.1 | (5.6) | (61.1) | 83.9 | 26.4 |
| Net profit | 17.9 | (14.8) | (44.1) | 48.2 | 23.7 |
| P&L ratios (%) | | | | | |
| OPM | 21.8 | 16.8 | 9.3 | 15.2 | 16.7 |
| Pre-tax margin | 24.1 | 19.3 | 12.1 | 18.0 | 19.7 |
| Net margin | 25.1 | 19.3 | 14.0 | 18.4 | 19.8 |
| Tax rate | (21.7) | (20.0) | (18.0) | (20.0) | (20.0) |
| Returns (%) | | | | | |
| ROE | 29.8 | 23.6 | 11.5 | 18.7 | 23.4 |
| ROA | 20.7 | 15.5 | 8.3 | 12.7 | 15.2 |
| Per share | | | | | |
| EPS (RMB) | 18.93 | 15.94 | 8.74 | 11.79 | 12.90 |
| DPS (RMB) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| BVPS (RMB) | 61.01 | 70.05 | 66.07 | 69.20 | 70.00 |

Source: Company data, CMBIS estimates

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