

# Huya (HUYA US)

## Focusing on content post deal termination

Huya delivered better-than-feared 2Q21 results, with revenue/ adj. net profit +10%/-24% YoY, 3%/10% above consensus. Mobile MAU +2.6% YoY to 77.6mn, as overseas expansion partly offset domestic headwinds. As the Douyu merger terminated, Huya aims to focus on content investment, overseas biz, and video-lization. We trimmed our rev by 5%/5%/9% in FY21/22/23E to reflect domestic headwinds and cut OPM by 2-8% for content investment and user acquisition. Lowered TP to US\$12 (36x FY22E P/E). Suggest waiting for clearer regulation signals.

- Better-than-feared 2Q21 results.** Huya 2Q21 rev/ adj. net profit +10%/-24% YoY to RMB3.0bn/250mn, 3%/10% above consensus. Mobile MAU grew +2.6% YoY to 77.6mn, primarily driven by overseas expansion. Huya reported soft MPU at 5.6mn (-10% YoY) and paying ratio at 7.2% (vs. 8.2% in 2Q20 and 7.8% in 1Q21), partly offset by quarterly ARPPU which +13.4% YoY to RMB469. Tencent-channel users (excl. in MAU) nearly doubled YoY, with potential deeper collaboration on the horizon. By segment, Live streaming +1% YoY, and other rev +190% YoY due to licensing of content.
- Moving onto 2H21E with stronger game and content pipeline.** We expect stronger user momentum in 2H21E, backed by summer vacation, e-sports finals, and potential release of DnFM and LoLM. Huya broadcasted 122/45 third-party and self-made events in 2Q21, generating 673mn/116mn viewership. Next-month retention rate remained 70%+, as video MAU reached 30mn thanks to enriched video formats. We expect Huya to increase content investment and S&M post Douyu-deal termination to reaccelerate rev growth, with 5-year LPL broadcasting right secured.
- Overseas biz improving amid domestic headwinds.** Driven by local e-sports events and focus on monetization, Huya's overseas rev +200% YoY in 2Q21 with narrowing operating loss. We anticipate Huya's overseas biz to contribute more to topline and bottom line 2H21E, partially offsetting domestic headwinds from regulation and intensified competition. Domestic uncertainties lie in soft live streaming industry and game regulation, and we suggest waiting for clearer regulation signals.
- Maintain BUY.** We cut our bottom line by 43%/62%/61% in FY21/22/23E to reflect Huya's strategic focus on content investment and user acquisition. Lowered TP to US\$12 (36x FY22E P/E).

### Earnings Summary

(YE 31 Dec)	FY19	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	8,375	10,914	11,629	13,342	14,409
YoY growth (%)	79.6	30.3	6.5	14.7	8.0
Adj. net income (RMB mn)	750	1,262	435	538	743
Adj. EPS (RMB)	3.23	5.29	1.78	2.15	2.90
YoY growth (%)	17.0	63.6	-66.3	20.8	34.8
Consensus EPS (RMB)	NA	NA	2.68	4.19	5.82
P/E (x)	19.5	11.8	35.0	29.0	21.5
P/S (x)	1.7	1.4	1.3	1.2	1.1
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	8.6	12.9	4.3	5.0	6.5
Net gearing (%)	Net	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

### BUY (Maintain)

Target Price	US\$12.0
(Previous TP)	US\$23.8
Up/Downside	+23.7%
Current Price	US\$9.7

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#### Stock Data

Mkt Cap (US\$ mn)	2,244
Avg 3 mths t/o (US\$ mn)	51.20
52w High/Low (US\$)	36.33/ 9.49
Total Issued Shares (mn)	84

Source: Bloomberg

#### Shareholding Structure

Morgan Stanley	31.92%
Baillie Gifford	11.01%
Capital Group Cos	10.17%

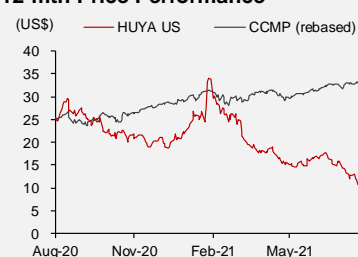
Source: Bloomberg

#### Share Performance

	Absolute	Relative
1-mth	-38.2%	-39.8%
3-mth	-39.0%	-44.6%
6-mth	-71.8%	-73.3%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

#### Auditor: PwC

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Figure 1: 2Q21 financial review

RMB mn	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	QoQ	YoY	Consensus	Diff %
Revenue	1,631	2,010	2,265	2,467	2,412	2,697	2,815	2,990	2,605	2,962	14%	10%	2,866	3%
Operating profit	28	68	64	102	133	181	223	187	162	182	12%	0%	192	-5%
Net profit	63	122	123	160	171	207	253	253	186	186	0%	-10%	NA	NA
Adj. net profit	131	170	206	242	263	331	361	306	266	250	-6%	-24%	228	10%
Adj. EPS (RMB)	0.59	0.73	0.87	1.02	1.11	1.40	1.50	1.27	1.10	1.04	-6%	-26%	0.94	10%
<b>Margin (%)</b>														
Gross margin	16.8%	16.7%	17.9%	18.9%	19.7%	21.3%	22.0%	20.0%	19.7%	19.6%			17.5%	
Operating margin	1.7%	3.4%	2.8%	4.1%	5.5%	6.7%	7.9%	6.3%	6.2%	6.1%			6.7%	
Adj. net margin	8.0%	8.5%	9.1%	9.8%	10.9%	12.3%	12.8%	10.2%	10.2%	8.4%			8.0%	
<b>Growth (%)</b>														
Revenue (YoY)	93.4%	93.6%	77.4%	64.0%	47.8%	34.2%	24.3%	21.2%	8.0%	9.8%			6.3%	
Revenue (QoQ)	8.4%	23.2%	12.7%	8.9%	-2.3%	11.8%	4.4%	6.2%	-12.9%	13.7%			10.0%	
Operating profit	0.2%	NA	NA	447.8%	372.5%	168.0%	249.0%	84.4%	21.6%	0.3%			5.9%	
Adj. net profit	94.1%	-23.2%	70.5%	44.9%	100.2%	94.2%	75.0%	26.5%	1.1%	-24.4%			-31.0%	

Source: Company data, Bloomberg, CMBIS estimates

Figure 2: Revenue breakdown

	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	QoQ	YoY
<b>Revenue (RMB mn)</b>	<b>1,631</b>	<b>2,010</b>	<b>2,265</b>	<b>2,467</b>	<b>2,412</b>	<b>2,697</b>	<b>2,815</b>	<b>2,990</b>	<b>2,605</b>	<b>2,962</b>	<b>13.7%</b>	<b>9.8%</b>
Live broadcasting	1,552	1,921	2,156	2,346	2,274	2,565	2,657	2,815	2,392	2,579	7.8%	0.6%
Others	79	89	109	121	137	132	158	175	213	383	80.3%	189.9%

Source: Company data, CMBIS estimates

Figure 3: CMBIS estimates vs consensus

RMB mn, Dec-YE	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	11,629	13,342	14,409	12,220	14,157	15,757	-4.8%	-5.8%	-8.6%
Gross Profit	1,623	1,688	2,005	1,944	2,686	3,274	-16.5%	-37.2%	-38.7%
Operating Profit	(41)	(113)	55	812	1,276	1,362	-105.1%	-108.8%	-95.9%
Adj. net profit	435	538	743	793	1,462	1,832	-45.2%	-63.2%	-59.5%
Adj. EPS (RMB)	1.78	2.15	2.90	3.31	6.13	7.62	-46.3%	-64.9%	-61.9%
Gross Margin	14.0%	12.6%	13.9%	15.9%	19.0%	20.8%	-1.9ppts	-6.3ppts	-6.9ppts
Operating Margin	-0.4%	-0.8%	0.4%	6.6%	9.0%	8.6%	-7.0ppts	-9.9ppts	-8.3ppts
Adj. net margin	3.7%	4.0%	5.2%	6.5%	10.3%	11.6%	-2.7ppts	-6.3ppts	-6.5ppts

Source: CMBIS estimates, Bloomberg

Figure 4: Earnings revision

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	11,629	13,342	14,409	12,268	14,047	15,803	-5.2%	-5.0%	-8.8%
Gross Profit	1,623	1,688	2,005	1,928	2,782	3,441	-15.8%	-39.3%	-41.7%
Operating Profit	(41)	(113)	55	206	880	1,377	-120.1%	-112.8%	-96.0%
Adj. net profit	435	538	743	769	1,398	1,898	-43.4%	-61.5%	-60.9%
EPS (RMB)	1.78	2.15	2.90	3.15	5.59	7.41	-43.4%	-61.5%	-60.9%
Gross Margin	14.0%	12.6%	13.9%	15.7%	19.8%	21.8%	-1.8ppts	-7.2ppts	-7.9ppts
Operating Margin	-0.4%	-0.8%	0.4%	1.7%	6.3%	8.7%	-2.0ppts	-7.1ppts	-8.3ppts
Net Margin	3.7%	4.0%	5.2%	6.3%	10.0%	12.0%	-2.5ppts	-5.9ppts	-6.9ppts

Source: Company data, CMBIS estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Revenues</b>	<b>8,375</b>	<b>10,914</b>	<b>11,629</b>	<b>13,342</b>	<b>14,409</b>
Live broadcasting	7,976	10,312	10,572	12,129	13,099
Others	398	603	1,057	1,213	1,310
COGS	(6,893)	(8,646)	(10,006)	(11,654)	(12,403)
<b>Gross profit</b>	<b>1,482</b>	<b>2,268</b>	<b>1,623</b>	<b>1,688</b>	<b>2,005</b>
R&D	(509)	(734)	(810)	(883)	(969)
S&M	(438)	(558)	(624)	(676)	(730)
G&A	(353)	(445)	(429)	(470)	(498)
Other income	79	194	199	228	247
<b>Operating profit</b>	<b>261</b>	<b>725</b>	<b>(41)</b>	<b>(113)</b>	<b>55</b>
Fair value change	-	(8)	-	-	-
Interest income	304	313	200	352	396
Other income	1	2	-	-	-
Pre-tax Income	567	1,033	159	239	451
Income Tax	(96)	(177)	(66)	(90)	(126)
Net profit	468	884	121	178	354
<b>Adj. net profit</b>	<b>750</b>	<b>1,262</b>	<b>435</b>	<b>538</b>	<b>743</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Net income</b>	<b>468</b>	<b>884</b>	<b>121</b>	<b>178</b>	<b>354</b>
D&A	63	103	113	124	137
Change in WC	1,154	(162)	(400)	(354)	(358)
Others	260	415	286	332	361
<b>Operating CF</b>	<b>1,945</b>	<b>1,240</b>	<b>120</b>	<b>280</b>	<b>494</b>
Capex	(71)	(428)	(124)	(130)	(137)
Others	(3,614)	1,433	-	-	-
<b>Investing CF</b>	<b>(3,685)</b>	<b>1,005</b>	<b>(124)</b>	<b>(130)</b>	<b>(137)</b>
Preference shares	-	-	-	-	-
Common shares	2,111	-	-	-	-
Others	23	265	-	-	-
<b>Financing CF</b>	<b>2,134</b>	<b>265</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net change in cash	394	2,510	(4)	150	357
Cash (beg of yr)	709	1,115	3,458	3,455	3,604
Fx effect	11	(166)	-	-	-
<b>Cash (end of yr)</b>	<b>1,115</b>	<b>3,458</b>	<b>3,455</b>	<b>3,604</b>	<b>3,962</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Non-current assets</b>	<b>775</b>	<b>1,140</b>	<b>1,179</b>	<b>1,213</b>	<b>1,241</b>
PP&E	97	95	87	77	62
Right-of-use assets	103	87	87	87	87
Intangible assets	45	63	81	97	112
Others	530	895	923	952	980
<b>Current assets</b>	<b>10,592</b>	<b>11,271</b>	<b>11,437</b>	<b>11,598</b>	<b>11,962</b>
Cash & restricted cash	1,115	3,458	3,619	3,769	4,126
Receivables	62	71	76	87	94
Short-term deposits	6,743	5,975	5,975	5,975	5,975
Other current asset	2,672	1,766	1,766	1,766	1,766
<b>Current liabilities</b>	<b>2,447</b>	<b>2,385</b>	<b>1,990</b>	<b>1,647</b>	<b>1,297</b>
Accounts payables	4	10	12	14	14
Deferred revenue	795	486	149	(260)	(726)
Accruals	1,460	1,707	1,648	1,712	1,827
Others	188	182	182	182	182
<b>Non-current liabilities</b>	<b>235</b>	<b>249</b>	<b>249</b>	<b>249</b>	<b>249</b>
Lease liabilities	70	58	58	58	58
Deferred revenue	165	178	178	178	178
Deferred tax liabilities	-	13	13	13	13
<b>Shareholders' equity</b>	<b>8,685</b>	<b>9,777</b>	<b>10,212</b>	<b>10,750</b>	<b>11,492</b>

### Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Sales mix (%)</b>					
Live broadcasting	95.2	94.5	90.9	90.9	90.9
Others	4.8	5.5	9.1	9.1	9.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Growth rate (%)</b>					
Revenue	79.6	30.3	6.5	14.7	8.0
Gross profit	103.1	53.0	(28.4)	4.0	18.8
EBIT	880.3	177.4	(105.7)	172.4	(149.1)
Adj. net profit	62.7	68.2	(65.5)	23.7	38.1
<b>P&amp;L ratios (%)</b>					
Operating margin	3.1	6.6	(0.4)	(0.8)	0.4
Pre-tax margin	6.8	9.5	1.4	1.8	3.1
Adj. net margin	9.0	11.6	3.7	4.0	5.2
Effective tax rate	(16.9)	(17.1)	(41.7)	(37.6)	(27.9)
<b>Returns (%)</b>					
ROE	8.6	12.9	4.3	5.0	6.5
ROA	6.6	10.2	3.4	4.2	5.6
<b>Per share</b>					
EPS (RMB)	3.2	5.3	1.8	2.2	2.9
DPS (RMB)	1.0	2.0	3.0	4.0	5.0
BVPS (RMB)	37.4	41.0	41.8	43.0	44.9

Source: Company data, CMBIS estimates

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