

JOYY Inc. (YY US)

Soft guidance on overseas traffic normalization

YY delivered better-than-feared 2Q21 results but soft guidance. 2Q21 rev +39.7% YoY (1% above consensus) despite soft seasonality. Non-GAAP net loss narrowed to US\$0.5mn (vs. consensus US\$56mn), as BIGO turned profitable. Market concern lies in soft guidance, intensified overseas competition, and weak MENA region, and YY deal still awaits regulator greenlight. Mgmt. guided soft 2H21E due to alleviating lockdown measures overseas which reduces online time spent. We trimmed our FY21-23E rev forecast by 13-29% to reflect prudent outlook and lowered SOTP-based TP to US\$66.

- Better-than-feared 2Q21, but guidance soft.** 2Q21 rev grew 39.8% YoY, 1% above consensus. Non-GAAP net loss was US\$0.5mn (vs. consensus at US\$12mn) with margin at -0.1%, as BIGO turned profitable with Non-GAAP NP at US\$19mn. 3Q21E rev guidance came at +13.7% to 18.7% YoY (-7% to -12% QoQ), midpoint 14% below consensus, due to fluctuating Bigo Live paying ratio and ARPU due to alleviating lockdown measures overseas. JOYY announced dividend of US\$0.51/ADS for 2Q21 and repurchased c. US\$296.8mn of shares in Aug 2019 - Aug 2021 (vs. US\$300mn cap).
- Bigo to decelerate on multiple headwinds and prudent marketing.** Bigo Live/ total MAU +0.3%/ -26% to 29.5mn/308mn in 2Q21, under pressure of Indian ban, and BIGO rev +38.4% YoY with Non-GAAP NP of US\$19mn. Bigo Live rev +48% YoY, in which Europe +105% YoY, Eastern Pacific +53% YoY, and SEA and other emerging countries +32% YoY. Likee rev +137% YoY, in which Middle East/developed regions +4x/106% YoY. We expect 3Q21E Bigo rev to -8% QoQ, factoring in lower time spent and ARPU with overseas traffic normalization and soft global macro. 3Q21E GPM would see 1-2ppts QoQ increase due to decreasing bandwidth cost but rising content investment. As such, we forecast FY21E rev +30% YoY (prior +45% YoY).
- YY deal awaiting regulator greenlight.** JOYY and Baidu extended the long stop date of YY deal on 16 Aug 2021, suggesting pending regulatory approval. Upon deal completion, mgmt. will consider shareholder return and offshore capex, with conservative investment plan for BIGO due to improved profitability and intensified competition (e.g., TikTok).
- Maintain BUY.** We trimmed our FY21-23E rev forecast by 13-29% to reflect softer Bigo momentum and lowered SOTP-based TP to US\$66.

Earnings Summary

| (YE 31 Dec) | FY19A | FY20A | FY21E | FY22E | FY23E |
|----------------------|----------|----------|----------|----------|----------|
| Revenue (US\$ mn) | 3,712 | 3,336 | 2,567 | 3,024 | 3,391 |
| YoY growth (%) | 62.2 | (9.8) | (27.7) | 17.8 | 12.1 |
| Net income (US\$ mn) | 628 | 217 | (52) | 67 | 152 |
| Adj. EPS (US\$) | 4.18 | 2.36 | (0.64) | 0.80 | 1.79 |
| YoY growth (%) | (41.6) | (43.4) | (125.5) | (225.7) | 121.8 |
| Consensus EPS | NA | NA | (0.4) | 0.6 | 2.4 |
| P/E (x) | 11.1 | 19.7 | NA | 57.6 | 26.0 |
| P/S (x) | 1.9 | 1.3 | 1.5 | 1.3 | 1.2 |
| Yield (%) | 0.0 | 2.0 | 2.0 | 0.0 | 0.0 |
| ROE (%) | 11.1 | 2.8 | (0.6) | 0.8 | 1.8 |
| Net gearing (%) | Net cash | Net cash | Net cash | Net cash | Net cash |

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

| | |
|---------------|------------|
| Target Price | US\$66.0 |
| (Previous TP) | US\$132.0) |
| Up/Downside | +41.0% |
| Current Price | US\$46.8 |

China Internet Sector

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Stock Data

| | |
|--------------------------|-------------|
| Mkt Cap (US\$ mn) | 3,216 |
| Avg 3 mths t/o (US\$ mn) | 81.46 |
| 52w High/Low (US\$) | 148.9/ 39.1 |
| Total Issued Shares (mn) | 63 |

Source: Bloomberg

Shareholding Structure

| | |
|----------------|--------|
| Lei Jun | 28.22% |
| Morgan Stanley | 7.76% |
| FMR LLC | 6.78% |

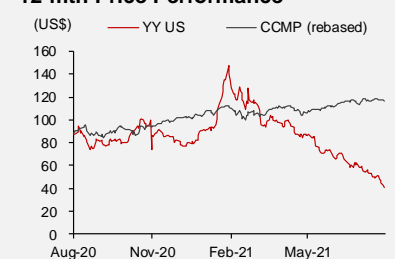
Source: Bloomberg

Share Performance

| | Absolute | Relative |
|-------|----------|----------|
| 1-mth | -33.5% | -34.6% |
| 3-mth | -53.6% | -57.6% |
| 6-mth | -71.2% | -72.6% |

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

- FY21E guidance intact despite soft 2Q21E – 31 May 2021
- Bigo's momentum to continue – 30 Mar 2021
- All in Bigo with YY Live sale – 18 Nov 2020

Figure 1: 2Q21 financial review

| US\$ mn | 4Q19 | 1Q20 | 2Q20 | 3Q20 | 4Q20 | 1Q21 | 2Q21 | QoQ | YoY | Consensus | Diff % |
|-------------------|--------|--------|---------|--------|--------|--------|--------|------|-------|-----------|--------|
| Revenue | 303 | 342 | 474 | 534 | 568 | 643 | 662 | 2.9% | 39.7% | 656 | 1% |
| Operating profit | (123) | (114) | (120) | (89) | (84) | (73) | (101) | NA | NA | (6) | NA |
| Net profit | (118) | (65) | (29) | 189 | (121) | (90) | (109) | NA | NA | NA | NA |
| Adj. net profit | (65) | (65) | (51) | (27) | (22) | (24) | (0.5) | NA | NA | (56) | NA |
| Adj. EPS (US\$) | (0.81) | (0.81) | 0.79 | (0.33) | (0.28) | (0.30) | (0.01) | NA | NA | (0.12) | NA |
| Margin (%) | | | | | | | | | | | |
| Gross margin | 29.0% | 26.6% | 26.8% | 29.1% | 29.3% | 31.1% | 30.7% | | | 29.7% | |
| Operating margin | -40.5% | -33.3% | -25.3% | -16.7% | -14.7% | -11.4% | -15.3% | | | -1.0% | |
| Adj. net margin | -21.4% | -18.9% | -10.7% | -5.0% | -3.9% | -3.7% | -0.1% | | | -8.5% | |
| Growth (%) | | | | | | | | | | | |
| Revenue (YoY) | NA | NA | -48.8% | NA | 87.6% | 88.1% | 39.7% | | | 38.5% | |
| Revenue (QoQ) | NA | 12.9% | NA | NA | NA | 13.1% | 2.9% | | | 2.0% | |
| Operating profit | NA | NA | NA | NA | NA | NA | NA | | | NA | |
| Adj. net profit | NA | NA | -166.2% | NA | NA | NA | NA | | | NA | |

Source: Company data, Bloomberg, CMBIS estimates

Figure 2: Revenue breakdown

| US\$ mn | 4Q19 | 1Q20 | 2Q20 | 3Q20 | 4Q20 | 1Q21 | 2Q21 | QoQ | YoY |
|----------------------|------------|------------|------------|------------|------------|------------|------------|-------------|--------------|
| Total revenue | 303 | 342 | 474 | 534 | 568 | 643 | 662 | 2.9% | 39.7% |
| by segment | | | | | | | | | |
| Live broadcasting | 264 | 314 | 451 | 511 | 540 | 614 | 630 | 2.5% | 39.7% |
| Others | 39 | 28 | 23 | 23 | 28 | 29 | 32 | 10.8% | 40.3% |
| by platform | | | | | | | | | |
| Bigo | 256 | 302 | 432 | 490 | 509 | 581 | 598 | 2.9% | 38.4% |
| All other | 47 | 40 | 42 | 44 | 59 | 62 | 64 | 3.2% | 53.5% |

Source: Company data

Figure 3: SOTP valuation

| SOTP | Metrics | | Multiple | | Valuation | |
|------------------------------|---|------------|--------------|----------|---------------|--------|
| (Rmb mn) | Rev | Net profit | Shareholding | | Valuation | |
| YY Live | Based on transaction valuation of US\$3.6bn | | 100% | | 23,549 | |
| Huya | Based on mkt cap | | 31% | | 4,635 | |
| BIGO | FY21E | 16,678 | NA | 2.5x P/S | 100% | 41,696 |
| Total | | | | | 69,880 | |
| Net cash | | | | | 10,555 | |
| Holding discount | | | | | 50% | |
| Equity Value (Rmb mn) | | | | | 40,217 | |
| Target Price (US\$) | | | | | 66 | |

Source: Company data, CMBIS estimates

Financial Summary

| Income statement | | | | | | Cash flow summary | | | | | |
|-------------------------|---------|---------|---------|---------|---------|---------------------------|-------|-------|-------|-------|-------|
| YE 31 Dec (US\$ mn) | FY19A | FY20A | FY21E | FY22E | FY23E | YE 31 Dec (US\$ mn) | FY19A | FY20A | FY21E | FY22E | FY23E |
| Revenue | 3,712 | 3,336 | 2,567 | 3,024 | 3,391 | Net income | 490 | 55 | (291) | (193) | (126) |
| Live broadcasting | 3,488 | 3,183 | 2,238 | 2,640 | 2,957 | D&A | 40 | 48 | 142 | 142 | 142 |
| Others | 225 | 152 | 330 | 384 | 433 | Change in WC | 122 | 424 | 42 | 48 | 26 |
| | | | | | | Others | 3 | (209) | 123 | 145 | 163 |
| COGS | (2,489) | (2,221) | (1,771) | (2,069) | (2,272) | Operating CF | 655 | 317 | 17 | 142 | 205 |
| Gross profit | 1,223 | 1,115 | 796 | 955 | 1,119 | Capex | (105) | (60) | (142) | (142) | (142) |
| S&M | (543) | (579) | (515) | (546) | (613) | Associates | - | - | - | - | - |
| Admin. Exp. | (216) | (176) | (159) | (157) | (176) | Others | (196) | 256 | - | - | - |
| R&D | (368) | (364) | (391) | (430) | (449) | Investing CF | (301) | 196 | (142) | (142) | (142) |
| Others | 59 | 32 | - | - | - | Equity raised | 1,585 | - | - | - | - |
| Operating profit | 155 | 28 | (270) | (179) | (119) | Change of Debts | - | - | - | - | - |
| Financial income | 106 | 101 | 5 | 3 | 4 | Others | - | - | - | - | - |
| Other income | 349 | 335 | - | - | 0 | Financing CF | 1,585 | - | - | - | - |
| Pre-tax Income | 611 | 464 | (265) | (176) | (115) | Net change in cash | (306) | 513 | (125) | (0) | 63 |
| Income Tax | (79) | (80) | (26) | (18) | (11) | Cash (beg of yr) | 871 | 564 | 1,750 | 1,625 | 1,625 |
| MI | (37) | (7) | (1) | (1) | (1) | FX | - | - | - | - | - |
| Share of equity inv | 6 | (8) | - | - | - | Cash (end of yr) | 566 | 1,077 | 1,625 | 1,625 | 1,687 |
| Net profit | 490 | 1,396 | (290) | (192) | (125) | | | | | | |
| Adj. net profit | 628 | 217 | (52) | 67 | 152 | | | | | | |

| Balance sheet | | | | | | Key ratios | | | | | |
|--------------------------------|-------|-------|-------|-------|-------|---------------------------|--------|--------|--------|-------|--------|
| YE 31 Dec (US\$ mn) | FY19A | FY20A | FY21E | FY22E | FY23E | YE 31 Dec | FY19A | FY20A | FY21E | FY22E | FY23E |
| Non-current assets | 3,398 | 3,186 | 4,212 | 4,212 | 4,212 | Sales mix (%) | | | | | |
| Fixed asset | 327 | 349 | 403 | 403 | 403 | Live broadcasting | 93.9 | 95.4 | 87.2 | 87.3 | 87.2 |
| Long-term investments | 343 | 119 | 20 | 20 | 20 | Others | 6.1 | 4.6 | 12.8 | 12.7 | 12.8 |
| Intangible assets | 462 | 460 | 346 | 346 | 346 | Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Others | 2,266 | 2,258 | 3,443 | 3,443 | 3,443 | Growth rate (%) | | | | | |
| Current assets | 4,180 | 4,673 | 3,857 | 3,912 | 4,019 | Revenue | 62.2 | (9.8) | (27.7) | 17.8 | 12.1 |
| Cash | 565 | 1,077 | 1,625 | 1,625 | 1,687 | Gross profit | 46.7 | (8.5) | (32.9) | 20.0 | 17.2 |
| Deposit over 3 months | 2,434 | 2,520 | 32 | 32 | 32 | EBIT | (59.5) | (82.1) | NA | NA | (33.7) |
| Account receivable | 252 | 108 | 181 | 213 | 239 | Net profit | 105.8 | (65.3) | NA | NA | 126.2 |
| Others | 929 | 968 | 2,020 | 2,043 | 2,061 | P&L ratios (%) | | | | | |
| Current liabilities | 1,109 | 1,242 | 1,055 | 1,158 | 1,228 | Operating margin | 4.2 | 0.8 | (10.5) | (5.9) | (3.5) |
| Borrowings | 17 | - | 113 | 113 | 113 | Pre-tax margin | 16.5 | 13.9 | (10.3) | (5.8) | (3.4) |
| Account payable | 18 | 22 | 25 | 30 | 33 | Adj. net margin | 16.9 | 6.5 | (2.0) | 2.2 | 4.5 |
| Tax payable | 66 | 65 | 61 | 61 | 61 | Effective tax rate | (13.0) | (19.0) | 10.0 | 10.0 | 10.0 |
| Accrued expenses | 678 | 810 | 589 | 688 | 755 | Returns (%) | | | | | |
| Other | 330 | 345 | 266 | 266 | 266 | ROE | 11.1 | 2.8 | (0.6) | 0.8 | 1.8 |
| Non-current liabilities | 826 | 822 | 841 | 841 | 841 | ROA | 8.7 | 4.3 | (0.8) | 1.1 | 2.5 |
| Convertible debt | 727 | 725 | 783 | 783 | 783 | Per share | | | | | |
| Other long-term liabilities | 99 | 97 | 58 | 58 | 58 | EPS (RMB) | 4.2 | 2.4 | (0.6) | 0.8 | 1.8 |
| MI | 777 | 791 | 4 | 3 | 2 | DPS (RMB) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total net assets | 5,644 | 5,795 | 6,173 | 6,125 | 6,162 | BVPS (RMB) | 92.8 | 98.2 | 98.9 | 97.6 | 96.9 |
| Shareholders' equity | 4,867 | 5,004 | 6,169 | 6,122 | 6,159 | | | | | | |

Source: Company data, CMBIS estimates

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