

Hello Group (MOMO US)

Tantan transition on track

Momo delivered better-than-feared 2Q21 but soft guidance, with revenue/adj. net profit -5%/-18% YoY, 1%/16% above consensus. 3Q21E rev guidance missed 1%. The Company rebranded as Hello Group to reflect its multi-app strategy. Mgmt. reiterated Tantan's FY21E net loss guidance of RMB350mn-450mn and guided sequential improvement since Jul 2021. Momo core trends well, and mgmt. maintained guidance of positive 2H21E YoY growth. To reflect its focus on ecosystem and 2Q21 progress, we tweaked FY21-23E rev by 1%-21% to reflect conservative monetization and trimmed TP to US\$14.0 (11x FY21E P/E).

- 2Q21 beat on low expectation, with soft guidance and user metrics.** 2Q21 rev/adj. net profit -5%/-18% YoY, 1%/16% above consensus. Margin beat on disciplined S&M control as e-commerce platforms pushed up CAC in 2Q21. 3Q21E rev guidance came at -3.1% to -0.4% YoY, midpoint 1% below consensus. User metrics trended softly, with MAU +4% YoY but paying users/Tantan paying users -3%/-21% YoY.
- Tantan transition on track.** Tantan's 2Q21 MAU remained flat with domestic decline and overseas increase. Its paying user -21% YoY to 3.1mn due to terminating short-sighted products in May (-20mn paying user), increasing women users (lower paying ratio), and soft DAU. Mgmt. guided Tantan's DAU and paying ratio improved sequentially in Jul 2021, with further upside from improving marketing efficiency, better social experience, and effective recommendation algorithm. Momo's live streaming (-22% YoY/+10% QoQ) YoY drop narrowed, attributed to improving ecosystem, engaged long-tail users, and incentivized hosts. Mgmt. guided Momo core rev to +5% YoY in 3Q21 and further accelerate in 4Q21, with higher contribution from VAS.
- Multi-app strategy in domestic and abroad.** Aside from Momo/Tantan being cash cow/ largest ST driver, new apps aim to supplement main apps from lower-tier cities and overseas. The Company rebranded to Hello Group to reflect its multi-app strategy, and we expect new apps to contribute to user growth with conservative monetization.
- Maintain HOLD.** We tweaked FY21-23E earnings by 1%-21% and trimmed TP to US\$14.0 (11x FY21E P/E). Given multiple challenges, we suggest waiting for clearer signs from Tantan reform.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	17,142	15,024	14,419	16,115	18,544
YoY growth (%)	22.5	-12.4	-4.0	11.8	15.1
Net income (RMB mn)	4,304	2,896	2,030	2,393	3,382
EPS (RMB)	18.9	15.9	8.9	10.3	14.3
YoY growth (%)	12.3	-16.5	-45.1	20.4	40.7
Consensus EPS (RMB)	NA	NA	10.0	12.6	14.3
P/E (x)	4.4	5.3	9.7	8.0	5.7
P/S (x)	1.1	1.2	1.3	1.2	1.0
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	29.8	23.5	12.6	13.8	20.7
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

HOLD (Maintain)

Target Price	US\$14.0
(Previous TP)	US\$15.0
Up/Downside	+8.5%
Current Price	US\$12.9

China Internet Sector

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Stock Data

Mkt Cap (US\$ mn)	2,498
Avg 3 mths t/o (US\$ mn)	40.58
52w High/Low (US\$)	20.7/ 11.1
Total Issued Shares (mn)	166

Source: Bloomberg

Shareholding Structure

Renaissance Tech	7.1%
Investco	5.6%
BlackRock	4.4%

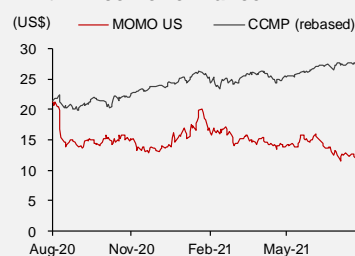
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-2.6%	-3.3%
3-mth	-12.7%	-21.3%
6-mth	-27.1%	-34.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Related Reports

- Heading into Tantan's transition – 9 Jun 2021
- Wait for more recovery signs – 26 Mar 2021
- Soft guidance with structural adjustment – 2 Dec 2020

Figure 1: CMBIS estimates vs consensus

RMB mn, Dec-YE	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	14,419	16,115	18,544	14,813	16,574	18,273	-2.7%	-2.8%	1.5%
Gross Profit	6,520	7,241	8,445	6,488	7,339	8,164	0.5%	-1.3%	3.4%
Operating Profit	1,517	1,735	2,759	1,684	2,309	2,839	-9.9%	-24.9%	-2.8%
Net profit	2,030	2,393	3,382	2,254	2,869	3,311	-9.9%	-16.6%	2.2%
EPS (RMB)	8.88	10.33	14.31	9.96	12.56	14.32	-10.8%	-17.8%	-0.1%
Gross Margin	45.2%	44.9%	45.5%	43.8%	44.3%	44.7%	+1.4ppts	+0.7ppts	+0.9ppts
Operating Margin	10.5%	10.8%	14.9%	11.4%	13.9%	15.5%	-0.8ppts	-3.2ppts	-0.7ppts
Net Margin	14.1%	14.8%	18.2%	15.2%	17.3%	18.1%	-1.1ppts	-2.5ppts	+0.1ppts

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	14,419	16,115	18,544	14,636	16,458	18,916	-1.5%	-2.1%	-2.0%
Gross Profit	6,520	7,241	8,445	6,502	7,415	8,629	0.3%	-2.3%	-2.1%
Operating Profit	1,517	1,735	2,759	1,362	2,505	3,166	11.4%	-30.7%	-12.8%
Net profit	2,030	2,393	3,382	2,043	3,026	3,745	-0.6%	-20.9%	-9.7%
EPS (RMB)	8.88	10.33	14.31	8.74	11.79	12.90	1.7%	-12.4%	10.9%
Gross Margin	45.2%	44.9%	45.5%	44.4%	45.1%	45.6%	+0.8ppts	-0.1ppts	-0.1ppts
Operating Margin	10.5%	10.8%	14.9%	9.3%	15.2%	16.7%	+1.2ppts	-4.5ppts	-1.9ppts
Net Margin	14.1%	14.8%	18.2%	14.0%	18.4%	19.8%	+0.1ppts	-3.5ppts	-1.6ppts

Source: CMBIS estimates

Figure 3: Momo's 2Q21 review

RMB mn	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	QoQ	YoY	Consensus	Diff %
Revenue	4,153	4,452	4,688	3,594	3,868	3,767	3,795	3,471	3,672	5.8%	-5.1%	3,635	1%
Operating profit	966	1,033	1,249	594	813	531	88	480	686	42.9%	-15.5%	421	63%
Net profit	789	945	1,056	539	456	457	651	462	464	0.5%	1.7%	284	63%
Adj. net profit	928	1,088	1,253	736	669	654	836	634	551	-13.1%	-17.6%	473	16%
Adj. EPS	4.12	4.90	5.61	3.34	3.05	2.98	3.80	2.91	2.54	-12.7%	-16.7%	2.02	26%
Margin (%)													
Gross Margin	50.9%	51.1%	49.8%	47.8%	47.4%	47.0%	46.2%	44.2%	43.6%			43.7%	
Operating margin	23.3%	23.2%	26.7%	16.5%	21.0%	14.1%	2.3%	13.8%	18.7%			11.6%	
Adj. net margin	22.4%	24.4%	26.7%	20.5%	17.3%	17.4%	22.0%	18.3%	15.0%			13.0%	
Growth (%)													
Revenue (YoY)	31.7%	22.0%	22.0%	-3.5%	-6.8%	-15.4%	-19.0%	-3.4%	-5.1%			-6.0%	
Revenue (QoQ)	11.5%	7.2%	5.3%	-23.3%	7.6%	-2.6%	0.8%	-8.6%	5.8%			4.7%	
Operating profit	7.7%	60.4%	57.4%	40.9%	-15.8%	-48.6%	-92.9%	-19.2%	-15.5%			-48.2%	
Adj. net profit	4.9%	45.2%	41.1%	-19.1%	-27.9%	-39.9%	-33.2%	-13.9%	-17.6%			-29.3%	

Source: Company data, Bloomberg

Figure 4: 2Q21 Revenue breakdown

RMB mn	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	QoQ	YoY
Total revenue	4,153	4,452	4,688	3,594	3,868	3,767	3,795	3,471	3,672	6%	-5%
Live broadcasti	3,100	3,275	3,383	2,332	2,603	2,375	2,328	1,962	2,101	7%	-19%
VAS	948	1,065	1,189	1,176	1,204	1,331	1,401	1,456	1,507	4%	25%
Mobile marketi	76	82	93	57	38	50	53	39	52	33%	36%
Mobile games	23	16	14	13	12	8	7	11	9	-18%	-21%
Other services	5	14	8	16	12	3	6	3	2	-24%	-80%

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	17,015	15,024	14,419	16,115	18,544
Live streaming	12,448	9,638	7,433	7,617	8,349
VAS	4,106	5,112	6,787	8,304	9,968
Mobile game	92	40	42	38	37
Marketing	332	198	147	144	177
Other services	37	37	11	12	14
COGS	(8,492)	(7,977)	(7,900)	(8,874)	(10,099)
Gross profit	8,523	7,047	6,520	7,241	8,445
S&M	(2,691)	(2,814)	(2,990)	(3,467)	(3,331)
Admin.Exp.	(1,527)	(763)	(472)	(645)	(742)
R&D	(1,095)	(1,168)	(1,127)	(806)	(927)
Others	345	229	(490)	(645)	(742)
Operating profit	3,555	2,531	1,517	1,735	2,759
Financial Cost	329	366	404	422	513
Associates	(16)	2	11	24	24
Pre-tax Income	3,868	2,899	1,933	2,181	3,297
Income Tax	(884)	(756)	(396)	(436)	(659)
MI	(10)	(3)	(3)	(3)	(3)
Net profit	2,971	2,103	1,540	1,748	2,641
Adj. net profit	4,304	2,896	2,030	2,393	3,382

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income	3,090	2,859	1,433	1,745	2,637
D&A	345	311	293	323	0
Change in WC	352	75	(536)	209	351
Others	603	2,695	623	469	645
Operating CF	4,280	3,081	3,868	1,659	2,921
Capex	(148)	(357)	18	(182)	(143)
Associates	0	0	0	0	0
Others	(3,777)	(391)	907	(162)	(1,109)
Investing CF	(3,925)	(748)	925	(343)	(1,252)
Equity raised	900	99	(99)	0	104
Change of Debts	0	0	0	0	0
Others	(1,670)	(1,597)	(2,702)	(1,626)	(3,307)
Financing CF	(770)	(1,498)	(2,801)	(1,626)	(3,203)
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	0	0	0	0	0
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	0	0	0	0	0
Others	1,136	1,118	887	1,194	1,319
NC liabilities	5,936	5,868	5,927	6,811	6,925
Borrowings	0	0	0	0	0
Others	5,936	5,868	5,927	6,811	6,925
MI	0	0	0	0	0
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	65.8	51.5	47.3	45.0
VAS	24.1	32.2	47.1	51.5	53.8
Mobile game	2.0	1.2	0.3	0.2	0.2
Mobile marketing	0.5	0.6	1.0	0.9	1.0
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	(5.3)	(11.4)	11.8	15.1
Gross profit	31.7	(8.8)	(17.9)	11.1	16.6
EBIT	7.1	(6.1)	(56.7)	14.4	59.0
Net profit	17.9	(15.2)	(44.4)	17.9	41.4
P&L ratios (%)					
OPM	20.9	16.8	10.5	10.8	14.9
Pre-tax margin	22.7	19.3	13.4	13.5	17.8
Net margin	25.3	19.3	14.1	14.8	18.2
Tax rate	(21.7)	(20.0)	(20.5)	(20.0)	(20.0)
Returns (%)					
ROE	29.8	23.5	12.6	13.8	20.7
ROA	20.7	15.4	8.2	10.0	13.7
Per share					
EPS (RMB)	18.93	13.16	8.88	10.33	14.31
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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