

JOYY Inc. (YY US)

Muted growth on soft macro while margin intact

JOYY's 1Q22 results beat estimates (rev 2% above consensus) while 2Q22E guidance missed (midpoint 13% below consensus). We expect rev +0% YoY in FY22E (back-end loaded), to reflect traffic normalization and soft global macro ahead. 2H22E would see moderate rev recovery. We expect non-GAAP NPM intact at 5.5% in FY22E, and strong cash position would support its share price. We trimmed the earning forecast by 4%-16% in FY22-24E to reflect macro headwinds, with new TP at US\$50.

- 1Q22 beat while 2Q22E guidance missed.** 1Q22 rev -3% YoY, 2.0%/1.3% above consensus/high-end guidance. 2Q22E rev guided at US\$579mn to US\$600mn, midpoint 13% below consensus. Non-GAAP NP came out at USD21mn, below consensus but above our estimate, representing non-GAAP NPM at 3.3% (vs -4% in 1Q21), attributable to continuous cost savings on opex. Bigo live: live streaming rev/paying user -9.6%/-1.5% YoY, due to the uncertain global economy and forex depreciation against the US dollar. However, operations in Europe were less affected, as rev/paying user +10.4%/+3.1% YoY. Likee: live streaming rev -11.9% YoY, given proactive adjustments in post-epidemic period.
- Muted topline ahead despite margin intact.** We expect rev +0% YoY in FY22E (back-end loaded), to reflect traffic normalization and soft global macro ahead. 2H22E would see moderate rev recovery, given 1) Middle East users will go back to platforms after 2Q22 (Ramadan); 2) new features to partly offset soft macro and strong US dollar; and 3) low base. We expect non-GAAP NPM up to 5.5% in FY22E (vs. 3.7% in FY21), attributable to Bigo Live's stable GPM and narrowing loss from other product lines.
- Strong cash position to support the share price.** The strong cash position and share repurchase program will likely support the share price. By 1Q22, JOYY had net cash position at ~US\$3.2bn, while the market cap was US\$3.0bn (by the last trading day). By 1Q22, JOYY had repurchased US\$320mn of its shares cumulatively, accounting for 27% of the repurchase program (total US\$1.2bn).
- Maintain BUY.** We trimmed our earnings forecast by 4%-16% in FY22-24E to reflect macro headwinds but kept non-GAAP NPM barely changed, with new TP at US\$50 (implying 17.7x 23E P/E).

Earnings Summary

(YE 31 Dec)	FY20A	FY21	FY22E	FY23E	FY24E
Revenue (US\$ mn)	1,918	2,619	2,618	2,811	2,937
YoY growth (%)	(48.2)	36.5	(0.1)	7.4	4.5
Net income (US\$ mn)	(162)	96	143	204	239
Adj. EPS (US\$)	(2.0)	1.2	2.2	3.2	4.1
YoY growth (%)	(141.9)	(159.3)	49.2	42.5	17.3
Consensus EPS	NA	-0.4	1.65	2.52	2.88
P/E (x)	19.7	NA	17.3	12.1	10.4
P/S (x)	1.3	1.5	1.0	0.9	0.8
Yield (%)	3.3	6.2	6.3	7.0	7.6
ROE (%)	NA	1.5	2.2	3.1	3.6
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$50.0
(Previous TP)	US\$66.0)
Up/Downside	+44.0%
Current Price	US\$34.7

China Internet Sector

Sophie Huang
 (852) 3900 0889
 sophiehuang@cmbi.com.hk

Eason Xu
 (852) 3900 0849
 easonxu@cmbi.com.hk

Stock Data

Mkt Cap (US\$ mn)	2,488
Avg 3 mths t/o (US\$ mn)	36.86
52w High/Low (US\$)	77.1/23.1
Total Issued Shares (mn)	55

Source: Bloomberg

Shareholding Structure

T Rowe Price Group	9.99%
Capital Group	7.43%
BlackRock	4.87%

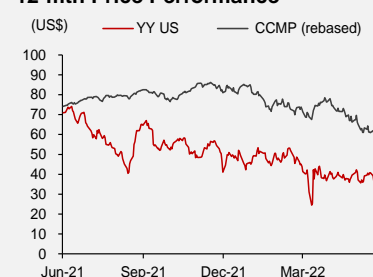
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-11.3%	-8.8%
3-mth	-21.7%	-11.7%
6-mth	-30.4%	-11.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

- Soft guidance on overseas traffic normalization – 20 Aug 2022
- FY21E guidance intact despite soft 2Q21E – 31 May 2021
- Bigo's momentum to continue – 30 Mar 2021

Figure 1: 1Q22 financial review

US\$ mn	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	QoQ	YoY	Consensus	Diff %	CMBI	Diff %
Revenue	474	534	568	643	662	651	664	624	-6.0%	-3.0%	609	2%	608	3%
Gross profit	127	156	167	200	203	211	224	201	-10.0%	0.5%	194	4%	188	7%
Operating profit	(120)	(89)	(84)	(73)	(101)	7	61	6	NA	NA	(2)	-417%	(31)	-121%
Net profit	987	330	(2)	(56)	(113)	4	71	(30)	NA	NA	(11)	NA	(18)	NA
Adj. net profit	(51)	(27)	(22)	(26)	(4)	33	98	21	NA	NA	23	-11%	12	70%
Adj. EPS (US\$)	0.79	(0.33)	(0.28)	(0.30)	(0.04)	0.36	1.19	0.28	NA	NA	0.27	5%	0.14	107%
Margin (%)														
Gross margin	26.8%	29.1%	29.3%	31.1%	30.7%	32.4%	33.7%	32.2%			31.9%		31.0%	
Operating margin	-25.3%	-16.7%	-14.7%	-11.4%	-15.3%	1.1%	9.1%	1.0%			-0.3%		-5.1%	
Adj. net margin	-10.7%	-5.0%	-3.9%	-4.0%	-0.5%	5.1%	14.7%	3.3%			3.8%		2.0%	
Growth (%)														
Revenue (YoY)	-48.8%	NA	87.6%	88.1%	39.7%	21.7%	16.8%	-3.0%			-5.3%		-5.5%	
Revenue (QoQ)	NA	NA	NA	13.1%	2.9%	-1.7%	2.0%	-6.0%			-8.2%		-8.4%	
Operating profit	NA	NA	NA	NA	NA	NA	NA	NA			NA		NA	
Adj. net profit	-166.2%	NA	NA	NA	NA	NA	NA	NA			NA		NA	

Source: Company data, Bloomberg, CMBIGM estimates

Figure 2: Revenue breakdown

US\$ mn	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	QoQ	YoY	
Total revenue	474	534	568	643	662	651	664	624	-6.0%	-3.0%	
by segment											
Live broadcasting		451	511	540	614	630	612	621	590	-5.0%	-3.9%
Others		23	23	28	29	32	38	43	34	-21.4%	16.3%
by platform											
Bigo		432	490	509	581	598	569	576	535	-7.2%	-8.0%
All other		42	44	59	62	64	82	88	89	1.8%	43.9%

Source: Company data

Figure 3: CMBIS estimates vs consensus

US\$ mn, Dec-YE	CMBIS			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	2,618	2,811	2,937	2,750	3,046	3,293	-4.8%	-7.7%	-10.8%
Gross Profit	809	887	932	894	1,006	1,106	-9.5%	-11.9%	-15.7%
Operating Profit	63	136	142	76	146	203	-16.6%	-6.8%	-29.9%
Net profit	143	204	239	151	233	275	-5.3%	-12.2%	-12.8%
Adj. EPS (RMB)	2.01	2.86	3.34	1.65	2.52	2.88	21.9%	13.7%	15.9%
Gross Margin	30.9%	31.6%	31.7%	32.5%	33.0%	33.6%	-1.6ppts	-1.5ppts	-1.9ppts
Operating Margin	2.4%	4.8%	4.8%	2.8%	4.8%	6.2%	-0.3ppts	+0.0ppts	-1.3ppts
Net Margin	5.5%	7.3%	8.2%	5.5%	7.6%	8.3%	-0.0ppts	-0.4ppts	-0.2ppts

Source: CMBIGM estimates, Bloomberg

Figure 4: Earnings revision

US\$ mn, Dec-YE	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	2,618	2,811	2,937	2,662	2,944	3,206	-1.7%	-4.5%	-8.4%
Gross Profit	809	887	932	826	939	1,039	-2.1%	-5.6%	-10.3%
Operating Profit	63	136	142	69	157	189	-8.5%	-13.6%	-24.8%
Net profit	143	204	239	149	225	286	-3.9%	-9.3%	-16.4%
Adj. EPS (RMB)	2.01	2.86	3.34	2.09	3.15	3.99	-3.9%	-9.3%	-16.4%
Gross Margin	30.9%	31.6%	31.7%	31.0%	31.9%	32.4%	-0.1ppts	-0.3ppts	-0.7ppts
Operating Margin	2.4%	4.8%	4.8%	2.6%	5.3%	5.9%	-0.2ppts	-0.5ppts	-1.1ppts
Net Margin	5.5%	7.3%	8.2%	5.6%	7.6%	8.9%	-0.1ppts	-0.4ppts	-0.8ppts

Source: CMBIGM estimates

Figure 5: SOTP valuation

SOTP		Metrics		Multiple	Shareholding	Valuation
(Rmb mn)	Rev	Net profit				Valuation
YY Live	Based on transaction valuation of US\$3.6bn					23,549
Huya	Based on mkt cap					1,991
BIGO	FY23E	15,631	NA	0.8x P/S	100%	9,378
Total						34,918
Net cash						3,447
Holding discount						20%
Equity Value (Rmb mn)						30,692
Target Price (US\$)						50
Implied PE						17.7

Source: Company data, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (US\$ mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	1,918	2,619	2,618	2,811	2,937
Live broadcasting	1,816	2,477	2,456	2,633	2,745
Others	102	142	162	178	192
COGS	(1,378)	(1,781)	(1,809)	(1,924)	(2,005)
Gross profit	540	838	809	887	932
S&M	(303)	(280)	(317)	(346)	(369)
Admin. Exp.	(505)	(468)	(420)	(409)	(408)
R&D	(147)	(222)	(157)	(150)	(140)
Others	-	-	-	-	(0)
Operating profit	(407)	(107)	(57)	11	15
Financial income	89	91	96	96	96
Other income	8	25	28	28	(0)
Pre-tax Income	14	(78)	21	89	93
Income Tax	(28)	(26)	(29)	(29)	-
MI	(7)	14	-	-	-
Share of equity inv	(8)	(26)	-	-	-
Net profit	1,363	(90)	(8)	60	93
Adj. net profit	(162)	96	143	204	239

Cash flow summary

YE 31 Dec (US\$ mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net income	(19)	(130)	(8)	60	93
D&A	82	88	105	121	135
Change in WC	(113)	(90)	0	(25)	(16)
Others	575	253	149	205	207
Operating CF	524	122	247	361	419
Capex	(160)	(158)	(163)	(168)	(173)
Associates	-	-	-	-	-
Others	990	(116)	(116)	(116)	(116)
Investing CF	830	(274)	(279)	(283)	(288)
Equity raised	-	-	-	-	-
Change of Debts	1,076	-	-	-	-
Others	(1,356)	(724)	-	-	-
Financing CF	(279)	(724)	-	-	-
Net change in cash	986	(874)	(32)	78	130
Cash (beg of yr)	657	1,756	882	850	928
FX	-	-	-	-	-
Cash (end of yr)	1,850	882	850	928	1,059

Balance sheet

YE 31 Dec (US\$ mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	4,194	4,236	4,294	4,341	4,378
Fixed asset	402	470	528	575	613
Long-term investments	1,239	1,213	1,213	1,213	1,213
Intangible assets	344	344	344	344	344
Others	2,208	2,208	2,208	2,208	2,208
Current assets	3,901	3,117	3,085	3,187	3,334
Cash	1,756	882	850	928	1,059
Deposit over 3 months	1,357	1,357	1,357	1,357	1,357
Account receivable	143	195	195	210	219
Others	645	683	683	693	700
Current liabilities	944	807	767	778	790
Borrowings	-	-	-	-	-
Account payable	21	21	20	20	20
Tax payable	61	61	61	61	61
Accrued expenses	484	492	454	459	465
Other	378	232	232	239	244
Non-current liabilities	837	668	668	669	669
Convertible debt	779	609	609	609	609
Other long-term liabilities	58	59	59	60	60
MI	5	(88)	(88)	(88)	(88)
Total net assets	6,314	5,878	5,943	6,081	6,254
Shareholders' equity	6,308	6,346	6,411	6,548	6,721

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Live broadcasting	94.7	94.6	93.8	93.7	93.5
Others	5.3	5.4	6.2	6.3	6.5
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	(48.2)	36.5	(0.1)	7.4	4.5
Gross profit	(55.7)	55.2	(3.4)	9.6	5.1
EBIT	(362.4)	(73.8)	(46.1)	(118.9)	38.2
Net profit	(141.9)	(159.3)	49.2	42.5	17.3
P&L ratios (%)					
Operating margin	(21.2)	(4.1)	(2.2)	0.4	0.5
Pre-tax margin	0.7	(3.0)	0.8	3.2	3.2
Adj. net margin	(8.4)	3.7	5.5	7.3	8.2
Effective tax rate	(203.7)	33.2	(136.6)	(32.5)	-
Returns (%)					
ROE	na	1.5	2.2	3.1	3.6
ROA	na	1.2	1.9	2.7	3.1
Per share					
EPS (RMB)	17.0	(1.1)	(0.1)	0.8	1.3
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	78.8	81.2	89.8	91.7	93.7

Source: Company data, CMBIGM estimates

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIGM

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBIGMG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBIGMG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBIGMG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBIGMG at +65 6350 4400 for matters arising from, or in connection with the report.