

JOYY Inc. (YY US)

Looking beyond 1Q23E soft seasonality

We expect JOYY to deliver in-line 4Q22E, with rev -9% YoY (unchanged) and bottom line at US\$2mn (margin diluted by Shipline loss). As a typical soft season, we expect 1Q23E rev declined 6% QoQ, dragged by CNY & Ramadan disruptions and competition pressure. With rising paying users and Middle East stabilization, Bigo would resume growth in 2H23E, in our view. Shipline's loss (US\$10mn per month in FY23E) might dilute short-term margin, but long-term trend remains intact. We expect FY23/24E adj. NPM at 6.1%/6.8%, backed by narrowing loss of Hago & Likee (expecting breakeven in FY23E). To factor in soft 1Q23E, we cut FY22-24E earnings by 0.0-2.6%, with new SOTP-based TP at US\$49 (by assigning 6x FY23E P/E to Bigo Live).

- Expecting 4Q22E largely in line.** User metrics in 4Q22E trended well, with MAU at sequential growth, in our estimates. We expect 4Q22 rev -9% YoY, in which full-quarter Shipline's rev contribution to partially offset Bigo's rev decline. Bigo Live's rev would decline 3% QoQ in 4Q22E (-18% YoY), for soft momentum in the Middle East (FIFA World Cup disruption), while some developed regions resumed positive growth (e.g. Australia & New Zealand, UK). Given annual gala and Shipline loss, we expect 4Q22E adj. NPM to be diluted at 0.4%, in which BIGO Live's adj.OPM was estimated at 13%.
- Looking beyond 1Q23E soft seasonality.** 1Q should be a typically soft quarter for Huya, given CNY and Ramadan disruptions. As such, we expect 1Q23E rev -6% QoQ, in which Feb recovered from Jan level while Jan declined from Dec level. By regions, US and European mkt might see the highest growth, followed by SEA mkt. For the Middle East (~25% rev mix), we expect the competition from Tiktok and Kuaishou to be gradually digested by the market. With rising paying user and Middle East stabilization, we expect Bigo Live to resume growth in 2H23E. We expect 1Q23E adj. NP at US\$20mn, with Bigo improving OP offset by Shipline loss (estimating US\$10mn per month) and FX loss. Likee and Hago might achieve a breakeven in FY23E, in our view. Looking ahead, we expect adj. NPM of Group at 6.1%/6.8% in FY23/24E, with continuous cost discipline, ROI-driven S&M and narrowing loss of Shipline.
- Maintain BUY.** We slightly trimmed FY22E-24E rev by 0.0-2.6% to reflect 1Q23E softness and livestreaming headwinds (amid macro challenges and competition). JOYY might invest more in Bigo Live to boost its momentum in FY23E, but expenses could be manageable. Our SOTP-based TP was correspondingly adjusted from US\$50 to US\$49, by assigning 6x FY23E P/E to Bigo Live.

Earnings Summary

(YE 31 Dec)	FY20A	FY21	FY22E	FY23E	FY24E
Revenue (US\$ mn)	1,918	2,619	2,409	2,461	2,527
YoY growth (%)	(48.2)	36.5	(8.0)	2.1	2.7
Net income (US\$ mn)	(162)	96	134	151	172
Adj. EPS (US\$)	(2.0)	1.2	1.9	2.1	2.4
YoY growth (%)	NA	NA	39.4	12.5	14.5
Consensus EPS	NA	(0.4)	2.2	2.2	2.6
P/E (x)	19.7	NA	19.4	17.2	15.1
P/S (x)	1.3	1.5	1.1	1.0	1.0
Yield (%)	3.9	7.5	7.6	8.3	9.1

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **US\$49.0**
 (Previous TP **US\$50.0**)
 Up/Downside **+36.5%**
 Current Price **US\$35.9**

China Internet Sector

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Stock Data

Mkt Cap (US\$ mn)	2,471
Avg 3 mths t/o (US\$ mn)	22.78
52w High/Low (US\$)	53.55/21.38
Total Issued Shares (mn)	55

Source: Bloomberg

Shareholding Structure

T Rowe Price Group	9.60%
Capital Group	4.67%
BlackRock	4.65%

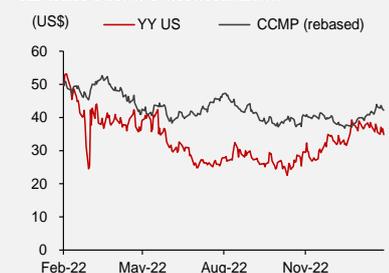
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-3.1%	-9.1%
3-mth	17.6%	13.7%
6-mth	25.4%	39.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Figure 1: 4Q22E financial preview

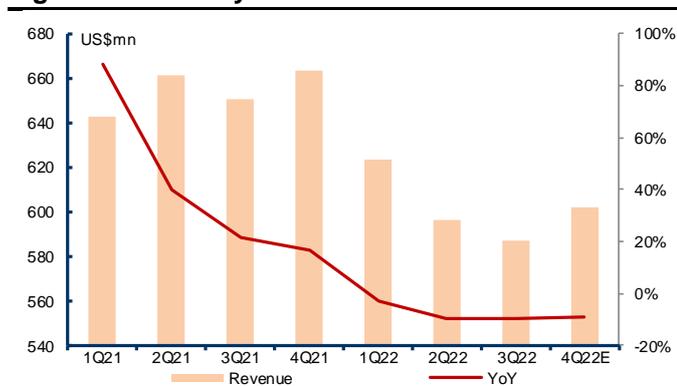
US\$ mn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22E	QoQ	YoY	Consensus	Diff %
Revenue	643	662	651	664	624	596	587	602	2.7%	-9.2%	605	0%
Gross profit	200	203	211	224	201	218	220	210	-4.7%	-6.1%	220	-5%
Operating profit	(73)	(101)	7	61	6	39	20	(73)	NA	-220.1%	25	-396%
Adj. net profit	(26)	(4)	33	98	17	48	71	2	NA	-97.6%	30	-92%
Adj. EPS (US\$)	(0.30)	(0.04)	0.36	1.19	0.24	0.67	0.83	0.12	NA	-89.6%	0.35	-65%
Margin (%)												
Gross margin	31.1%	30.7%	32.4%	33.7%	32.2%	36.6%	37.5%	34.8%			36.5%	
Operating margin	-11.4%	-15.3%	1.1%	9.1%	1.0%	6.5%	3.4%	-12.1%			4.1%	
Adj. net margin	-4.0%	-0.5%	5.1%	14.7%	2.8%	8.1%	12.0%	0.4%			5.0%	
Growth (%)												
Revenue (YoY)	88.1%	39.7%	21.7%	16.8%	-3.0%	-9.9%	-9.8%	-9.2%			-8.9%	
Revenue (QoQ)	13.1%	2.9%	-1.7%	2.0%	-6.0%	-4.4%	-1.6%	2.7%			3.0%	
Operating profit	NA	NA	NA	NA	NA	NA	NA	NA			NA	
Adj. net profit	NA	NA	NA	NA	NA	NA	NA	NA			NA	

Source: Company data, Bloomberg, CMBIGM estimates

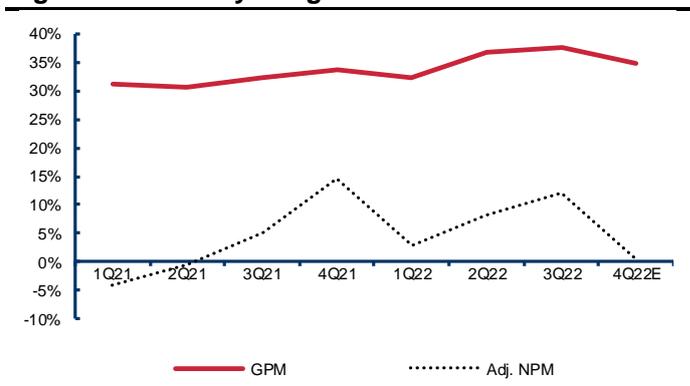
Figure 2: Revenue breakdown

US\$ mn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22E	QoQ	YoY
Total revenue	643	662	651	664	624	596	587	602	2.7%	-9.2%
by segment										
Live broadcasting	614	630	612	621	590	565	543	525	-3.3%	-15.4%
Others	29	32	38	43	34	31	44	77	75.7%	80.4%
by platform										
Bigo	581	598	569	576	535	503	483	470	-2.8%	-18.4%
All other	62	64	82	88	89	93	103	132	28.0%	51.1%

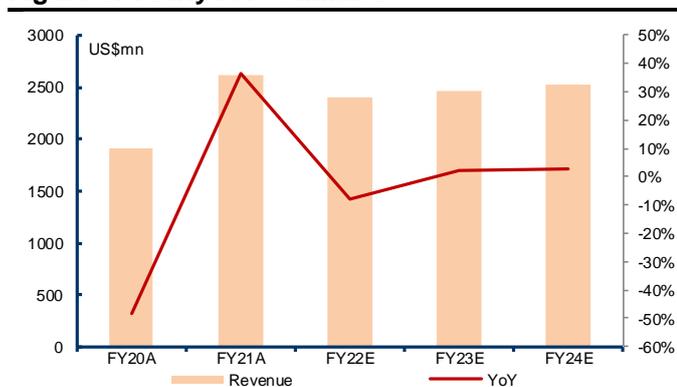
Source: Company data, CMBIGM estimates

Figure 3: Quarterly rev estimates

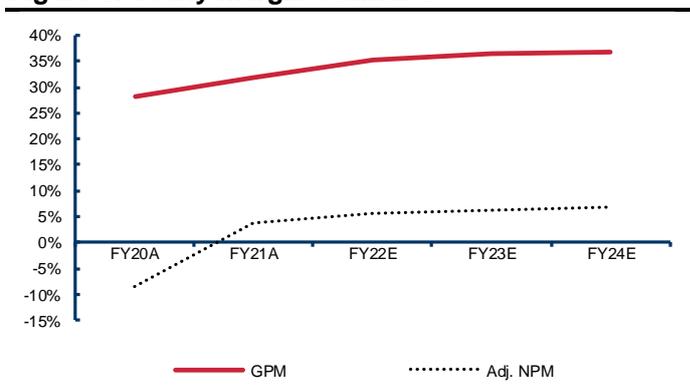
Source: Company data, CMBIGM estimates

Figure 4: Quarterly margin estimates

Source: Company data, CMBIGM estimates

Figure 5: Yearly rev estimates

Source: Company data, CMBIGM estimates

Figure 6: Yearly margin estimates

Source: Company data, CMBIGM estimates

We slightly trimmed FY22E-24E rev by 0.0-2.6% to reflect 1Q23E softness and livestreaming headwinds (amid macro challenges and competition). We suggest to look beyond 1Q23E soft seasonality, and expect Bigo Live to resume growth in 2H23E with Middle East stabilization. JOYY might invest more in Bigo Live to boost its momentum in FY23E, but expenses could be manageable. In the long run, we are positive on its better margin outlook, backed by narrowing loss of other biz.

Our SOTP-based TP was correspondingly adjusted from US\$50 to US\$49, implying 23.3x FY23E P/E. The new TP was derived from: 1) YY Live: US\$1.9bn, based on proceeds from Baidu (for conservative estimates); 2) Huya: based on market cap; and 3) Bigo Live: US\$1.7bn, by assigning 6x FY23E P/E (multiple below industrial average for its slower growth and competition pressure).

Figure 7: CMBIGM estimates vs consensus

US\$ mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	2,409	2,461	2,527	2,404	2,562	2,765	0.2%	-3.9%	-8.6%
Gross Profit	850	900	929	856	922	1,011	-0.7%	-2.4%	-8.1%
Operating Profit	81	154	176	120	120	188	-32.5%	28.7%	-6.1%
Net profit	134	151	172	180	164	206	-25.6%	-8.0%	-16.2%
Adj. EPS (RMB)	1.86	2.09	2.38	2.16	2.19	2.63	-14.1%	-4.4%	-9.5%
Gross Margin	35.3%	36.6%	36.8%	35.6%	36.0%	36.6%	-0.3ppts	+0.6ppts	+0.2ppts
Operating Margin	3.4%	6.3%	7.0%	5.0%	4.7%	6.8%	-1.6ppts	+1.6ppts	+0.2ppts
Net Margin	5.6%	6.1%	6.8%	7.5%	6.4%	7.4%	-1.9ppts	-0.3ppts	-0.6ppts

Source: CMBIGM estimates, Bloomberg

Figure 8: Earnings revision

US\$ mn, Dec-YE	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	2,409	2,461	2,527	2,409	2,531	2,618	0.0%	-2.8%	-3.5%
Gross Profit	850	900	929	850	927	966	0.0%	-3.0%	-3.8%
Operating Profit	81	154	176	81	158	181	0.0%	-2.6%	-2.7%
Net profit	134	151	172	134	154	177	0.0%	-2.5%	-2.6%
Adj. EPS (RMB)	1.86	2.09	2.38	1.86	2.15	2.45	0.0%	-2.5%	-2.6%
Gross Margin	35.3%	36.6%	36.8%	35.3%	36.6%	36.9%	0.0ppts	-0.1ppts	-0.1ppts
Operating Margin	3.4%	6.3%	7.0%	3.4%	6.3%	6.9%	0.0ppts	+0.0ppts	+0.1ppts
Net Margin	5.6%	6.1%	6.8%	5.6%	6.1%	6.8%	0.0ppts	+0.0ppts	+0.1ppts

Source: CMBIGM estimates

Figure 9: SOTP valuation

SOTP (US\$ mn)	Rev	Metrics	Multiple	Shareholding	Valuation
YY Live		Adj. NP		100%	1,900
Huya				18%	216
Bigo Live	FY23E 1,970	286	6x FY23E P/E	100%	1,714
Total					3,830
Net cash (less: US\$1.9bn received from Baidu)					1,190
Holding discount					30%
Equity Value (US\$ mn)					3,514
Target Price (US\$)					49

Source: Company data, CMBIGM estimates

Figure 10: Valuation comps

Company	Ticker	Mkt cap (USD mn)	Currency	Price	CMBI Rating	CMBI TP	PE			PS			FY22-24 EPS
							FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	CAGR
JOYY	YY US	2,471	USD	35	BUY	49	19.4	17.2	15.1	1.1	1.0	1.0	13%
Live Streaming													
Hello Inc	MOMO US	1,965	USD	10	HOLD	14	7.3	6.8	6.3	1.0	1.0	1.0	7%
JOYY	YY US	2,471	USD	35	BUY	50	13.7	15.1	12.0	1.0	1.0	0.9	10%
Inke	3700 HK	326	HKD	1	NA	NA	7.5	8.4	6.9	0.3	0.2	0.2	15%
Douyu	DOYU US	479	USD	2	NA	NA	NA	40.4	21.5	0.5	0.5	0.5	126%
Huya	HUYA US	1,231	USD	5	BUY	8	NA	NA	58.0	0.9	1.0	0.9	NA
Average							9.5	10.1	11.7	0.8	0.7	0.7	11%
Pan-entertainment													
TME	TME US	13,900	USD	8	BUY	11	19.8	18.0	16.5	3.3	3.2	3.0	10%
iQIYI	IQ US	7,061	USD	7	BUY	4	NA	34.5	20.5	1.7	1.5	1.4	166%
China Literature	772 HK	4,999	HKD	39	NA	NA	25.0	21.2	18.6	4.1	3.7	3.4	18%
Bilibili	BILI US	8,863	USD	22	BUY	30	NA	NA	NA	2.8	2.3	1.9	NA
Kuaishou	1024 HK	33,813	HKD	61	BUY	94	NA	NA	24.6	2.5	2.1	1.8	NA
Zhihu	ZH US	1,125	USD	2	BUY	2	NA	NA	NA	2.1	1.6	1.3	NA
Average							22.4	19.6	20.1	2.8	2.4	2.1	14%
Average							14.7	13.9	13.5	1.8	1.7	1.5	12%

Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (US\$ mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	1,918	2,619	2,409	2,461	2,527
Live broadcasting	1,816	2,477	2,223	2,175	2,182
Others	102	142	186	285	345
COGS	(1,378)	(1,781)	(1,559)	(1,561)	(1,598)
Gross profit	540	838	850	900	929
S&M	(303)	(280)	(322)	(346)	(342)
Admin. Exp.	(505)	(468)	(395)	(353)	(347)
R&D	(147)	(222)	(154)	(143)	(144)
Others	-	-	-	-	(0)
Operating profit	(407)	(107)	(8)	70	96
Financial income	89	91	96	96	96
Other income	8	25	13	13	(1)
Pre-tax income	14	(78)	569	149	175
Income tax	(28)	(26)	(28)	(28)	(29)
MI	(7)	14	15	-	-
Share of equity inv	(8)	(26)	(130)	-	-
Net profit	1,363	(90)	426	120	146
Adj. net profit	(162)	96	134	151	172

Cash flow summary

YE 31 Dec (US\$ mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net income	(19)	(130)	411	120	146
D&A	82	88	105	121	135
Change in WC	(113)	(90)	27	(7)	(9)
Others	575	253	226	139	145
Operating CF	524	122	770	373	418
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)	491	90	129
Cash (beg of yr)	657	1,756	882	1,373	1,463
FX	-	-	-	-	-
Cash (end of yr)	1,850	882	1,373	1,463	1,592

Balance sheet

YE 31 Dec (US\$ mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	4,194	4,236	4,164	4,211	4,248
Fixed asset	402	470	528	575	613
Long-term investments	1,239	1,213	1,083	1,083	1,083
Intangible assets	344	344	344	344	344
Others	2,208	2,208	2,208	2,208	2,208
Current assets	3,901	3,117	3,581	3,677	3,815
Cash	1,756	882	1,373	1,463	1,592
Deposit over 3 months	1,357	1,357	1,357	1,357	1,357
Account receivable	143	195	180	183	188
Others	645	683	672	674	678
Current liabilities	944	807	747	734	731
Borrowings	-	-	-	-	-
Account payable	21	21	19	18	18
Tax payable	61	61	61	61	61
Accrued expenses	484	492	442	427	422
Other	378	232	225	227	229
Non-current liabilities	837	668	668	668	668
Convertible debt	779	609	609	609	609
Other long-term liabilities	58	59	59	59	59
MI	5	(88)	(88)	(88)	(88)
Total net assets	6,314	5,878	6,330	6,486	6,665
Shareholders' equity	6,308	6,346	6,813	6,969	7,147

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Live broadcasting	94.7	94.6	92.3	88.4	86.3
Others	5.3	5.4	7.7	11.6	13.7
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	(48.2)	36.5	(8.0)	2.1	2.7
Gross profit	(55.7)	55.2	1.4	5.9	3.3
EBIT	NA	NA	NA	NA	37.2
Net profit	NA	NA	39.4	12.5	14.5
P&L ratios (%)					
Operating margin	(21.2)	(4.1)	(0.3)	2.9	3.8
Pre-tax margin	0.7	(3.0)	23.6	6.0	6.9
Adj. net margin	(8.4)	3.7	5.6	6.1	6.8
Effective tax rate	NA	33.2	(4.9)	(19.1)	(16.4)
Returns (%)					
ROE	NA	1.5	2.0	2.2	2.4
ROA	NA	1.2	1.8	1.9	2.2
Per share					
EPS (RMB)	17.0	(1.1)	5.9	1.7	2.0
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	78.8	81.2	94.7	96.8	98.8

Source: Company data, CMBIGM estimates

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