

Huya (HUYA US)

Margin improvement to continue

Huya delivered upbeat 4Q23 results, with revenue 2% above consensus and adj. NPM at -12.4% (vs. consensus of -13.9%). Looking into FY24E, we suggest to focus on its margin improvement and game monetization from more titles cooperation. We forecast stable topline YoY in FY24E, with advertising & other revenues at triple-digit-growth YoY. We are positive on its FY24E margin outlook (forecasting adj. NPM at 1.9%), supported by stringent opex and rising new business (with higher GPM). Huya will be a defensive name for upcoming fundamental improvement, attractive valuation, active share repurchases and dividends program. We slightly raised its adj. NP by 0.5%-19% in FY24-25E, with unchanged TP at US\$6.8.

■ **Better-than-feared 4Q23 with special dividend.** 4Q23 revenue declined 28% YoY (2% above consensus), in which YoY livestreaming -32% YoY and others +29% YoY. The decline of livestreaming was largely in line, for proactive business adjustments. Advertising and other revenues beat our estimates by 54%, on faster ramp-up of game advertising and distribution services. Bottom line came out at -RMB190mn, better than consensus of -RMB209mn, backed by prudent opex control. By 2023, Huya repurchased US\$28.8mn of shares, and they declared a special cash dividend totalling US\$150mn.

■ **Margin improvement to continue, with game business on good progress.** We forecast stable topline YoY in FY24E, in which livestreaming -15% YoY and advertising & other revenues at triple-digit-growth YoY. For game business, Huya has cooperated with Tencent in multiple games, including Maple Story Mobile (冒險島), HoK (王者榮耀), DreamStar (元夢之星), etc. We expect more upcoming titles to support robust game-related revenue growth. We are positive on its FY24E margin outlook (forecasting adj. NPM at 1.9%), supported by stringent opex and rising new business (with higher GPM). In the short run, we expect 1Q24E revenue to show low single-digit decline QoQ, with strong ads & other revenue to offset soft livestreaming (mid-to-high single-digit decline). GPM may be relatively stable YoY, while opex will decline YoY. We expect 1Q24E bottom line to be at RMB25mn.

■ **Maintain BUY.** To reflect better margin outlook, we slightly raised its adj. NP by 0.5%-19% in FY24-25E. Our DCF-based TP was unchanged at US\$6.8. Further game monetization may boost the re-rating of Huya ahead.

Earnings Summary

| (YE 31 Dec) | FY22A | FY23A | FY24E | FY25E | FY26E |
|------------------------------|---------|--------|-------|-------|-------|
| Revenue (RMB mn) | 9,264 | 6,994 | 7,001 | 7,724 | 8,264 |
| YoY growth (%) | (18.4) | (24.5) | 0.1 | 10.3 | 7.0 |
| Adjusted net profit (RMB mn) | (238.3) | 119.1 | 132.4 | 369.4 | 410.9 |
| YoY growth (%) | NA | NA | 11.1 | 179.1 | 11.2 |
| EPS (Adjusted) (RMB) | (0.99) | 0.49 | 0.53 | 1.47 | 1.61 |
| Consensus EPS (RMB cents) | NA | NA | 0.50 | 1.33 | 1.29 |
| P/S (x) | 0.81 | 1.08 | 1.08 | 0.98 | 0.91 |
| P/E (x) | NA | 64.7 | 59.2 | 21.6 | 19.7 |
| ROE (%) | (4.1) | (1.9) | 0.1 | 2.1 | 2.4 |

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

| | |
|----------------------|-----------------|
| Target Price | US\$6.80 |
| (Previous TP) | US\$6.80) |
| Up/Downside | +54.5% |
| Current Price | US\$4.40 |

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Stock Data

| | |
|--------------------------|-----------|
| Mkt Cap (US\$ mn) | 382.8 |
| Avg 3 mths t/o (US\$ mn) | 5.5 |
| 52w High/Low (US\$) | 4.72/2.16 |
| Total Issued Shares (mn) | 87.0 |

Source: FactSet

Shareholding Structure

| | |
|------------------------------|-------|
| Morgan Stanley | 16.9% |
| Teachers Insurance & Annuity | 8.7% |
| Asso of Ame | |

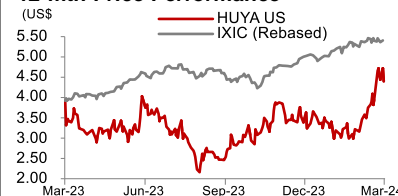
Source: HKEx

Share Performance

| | Absolute | Relative |
|-------|----------|----------|
| 1-mth | 39.2% | 34.6% |
| 3-mth | 25.7% | 14.9% |
| 6-mth | 73.2% | 44.3% |

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: 4Q23 financial review

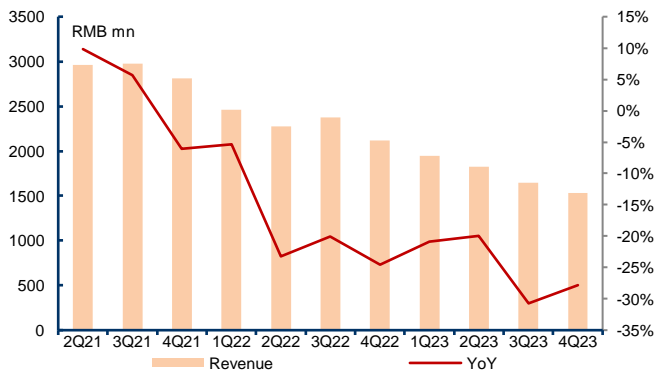
| RMB mn | 3Q21 | 4Q21 | 1Q22 | 2Q22 | 3Q22 | 4Q22 | 1Q23 | 2Q23 | 3Q23 | 4Q23 | QoQ | YoY | Consensus | Diff % | CMBI | Diff % |
|-------------------|--------|---------|--------|--------|--------|--------|--------|---------|--------|---------|------|-------|-----------|--------|---------|--------|
| Revenue | 2,976 | 2,809 | 2,465 | 2,275 | 2,379 | 2,119 | 1,949 | 1,821 | 1,648 | 1,530 | -7% | -28% | 1,506 | 2% | 1,506 | 2% |
| Gross profit | 504 | 1 | 334 | 219 | 342 | (237) | 256 | 273 | 228 | 15 | -93% | -106% | 14 | 13% | 4 | 245% |
| Net profit | 524 | (313) | (3) | (19) | 60 | (481) | 45 | 23 | 12 | (275) | NA | -43% | (267) | NA | (323) | NA |
| Adj. net profit | 180 | (241.7) | 47 | 6 | 106 | (440) | 86 | 115 | 103 | (190) | NA | -57% | (209) | NA | (213) | NA |
| Adj. EPS (RMB) | 0.75 | (1.00) | 0.19 | 0.02 | 0.44 | (1.81) | 0.35 | 0.47 | 0.42 | (0.79) | NA | -57% | (0.84) | NA | (0.86) | NA |
| Margin (%) | | | | | | | | | | | | | | | | |
| Gross margin | 16.9% | 0.0% | 13.5% | 9.6% | 14.4% | -11.2% | 13.2% | 15.0% | 13.9% | 1.0% | | | 0.9% | | 0.3% | |
| Operating margin | 5.2% | -13.8% | -0.1% | -2.5% | 2.4% | -23.5% | -0.5% | -0.1% | -1.1% | -20.7% | | | -10.8% | | -16.9% | |
| Adj. net margin | 6.0% | -8.6% | 1.9% | 0.3% | 4.5% | -20.8% | 4.4% | 6.3% | 6.3% | -12.4% | | | -13.9% | | -14.2% | |
| Growth (%) | | | | | | | | | | | | | | | | |
| Revenue (YoY) | 5.7% | -6.1% | -5.4% | -23.2% | -20.1% | -24.5% | -20.9% | -19.9% | -30.7% | -27.8% | | | -22.7% | | -28.4% | |
| Revenue (QoQ) | 0.4% | -5.6% | -12.3% | -7.7% | 4.5% | -10.9% | -8.0% | -6.6% | -9.5% | -7.2% | | | -8.6% | | -8.6% | |
| Gross profit | -18.8% | -99.8% | -35.1% | -62.3% | -32.1% | NA | -23.1% | 24.6% | -33.3% | -106.4% | | | NA | | -101.5% | |
| Adj. net profit | -50.2% | NA | -82.5% | -97.7% | -41.1% | NA | 83.5% | 1860.3% | -2.6% | NA | | | NA | | -51.5% | |

Source: Company data, Bloomberg

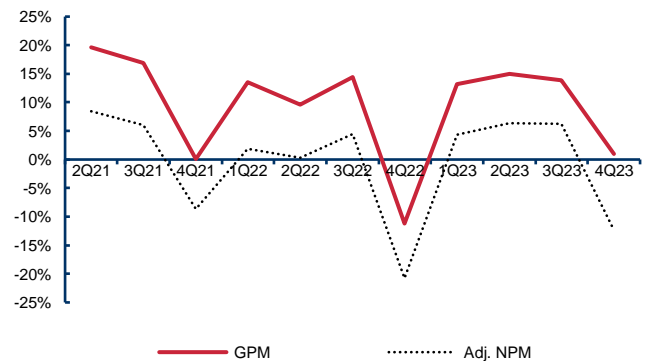
Figure 2: 4Q23 revenue breakdown

| | 3Q21 | 4Q21 | 1Q22 | 2Q22 | 3Q22 | 4Q22 | 1Q23 | 2Q23 | 3Q23 | 4Q23 | QoQ | YoY | | |
|-------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|--------|--------|
| Revenue (RMB mn) | 2,976 | 2,809 | 2,465 | 2,275 | 2,379 | 2,119 | 1,949 | 1,821 | 1,648 | 1,530 | -7.2% | -27.8% | | |
| Live broadcasting | | | 2,602 | 2,613 | 2,152 | 2,052 | 2,017 | 1,975 | 1,860 | 1,716 | 1,532 | 1,343 | -12.3% | -32.0% |
| Others | | | 374 | 196 | 313 | 223 | 361 | 144 | 89 | 106 | 116 | 186 | 60.5% | 29.2% |

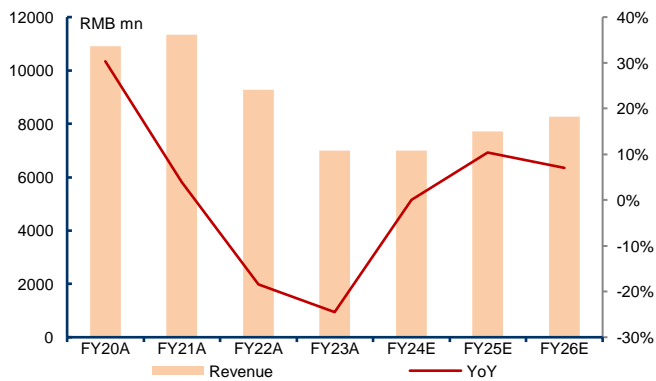
Source: Company data

Figure 3: Quarterly revenue

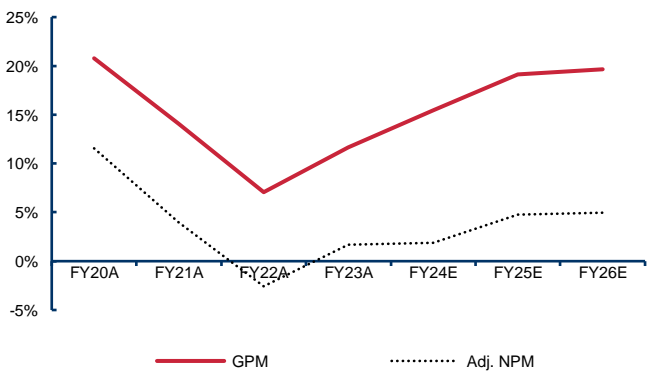
Source: Company data, CMBIGM

Figure 4: Quarterly margin

Source: Company data, CMBIGM

Figure 5: Annual revenue estimates

Source: Company data, CMBIGM estimates

Figure 6: Annual margin estimates

Source: Company data, CMBIGM estimates

Figure 7: CMBIGM estimates vs consensus

| RMB mn, Dec-YE | CMBIGM | | | Consensus | | | Diff (%) | | |
|------------------|--------|-------|-------|-----------|-------|-------|----------|----------|----------|
| | FY24E | FY25E | FY26E | FY24E | FY25E | FY26E | FY24E | FY25E | FY26E |
| Revenue | 7,001 | 7,724 | 8,264 | 6,623 | 7,352 | 7,037 | 5.7% | 5.1% | 17.4% |
| Gross profit | 1,083 | 1,477 | 1,622 | 875 | 1,188 | 1,074 | 23.8% | 24.4% | 51.1% |
| Operating profit | (54) | 234 | 304 | (254) | (8) | 36 | NA | NA | 736.3% |
| Adj. net profit | 132 | 369 | 411 | 130 | 351 | 323 | 1.8% | 5.2% | 27.2% |
| EPS (RMB) | 0.53 | 1.47 | 1.61 | 0.50 | 1.33 | 1.29 | 7.3% | 10.8% | 24.7% |
| Gross margin | 15.5% | 19.1% | 19.6% | 13.2% | 16.2% | 15.3% | +2.3ppts | +3.0ppts | +4.4ppts |
| Operating margin | -0.8% | 3.0% | 3.7% | -3.8% | -0.1% | 0.5% | +3.1ppts | +3.1ppts | +3.2ppts |
| Net margin | 1.9% | 4.8% | 5.0% | 2.0% | 4.8% | 4.6% | -0.1ppts | +0.0ppts | +0.4ppts |

Source: Company data, Bloomberg, CMBIGM estimates

Figure 8: Earnings revision

| RMB mn, Dec-YE | CMBIGM | | | Old | | | Diff (%) | | |
|------------------|--------|-------|-------|-------|-------|-------|----------|----------|-------|
| | FY24E | FY25E | FY26E | FY24E | FY25E | FY26E | FY24E | FY25E | FY26E |
| Revenue | 7,001 | 7,724 | 8,264 | 6,926 | 7,725 | NA | 1.1% | 0.0% | NA |
| Gross profit | 1,083 | 1,477 | 1,622 | 1,073 | 1,584 | NA | 1.0% | -6.7% | NA |
| Operating profit | (54) | 234 | 304 | (73) | 248 | NA | NA | -5.6% | NA |
| Adj. net profit | 132 | 369 | 411 | 111 | 367 | NA | 18.9% | 0.5% | NA |
| EPS (RMB) | 0.53 | 1.47 | 1.61 | 0.45 | 1.45 | NA | 19.9% | 1.3% | NA |
| Gross margin | 15.5% | 19.1% | 19.6% | 15.5% | 20.5% | NA | -0.0ppts | -1.4ppts | NA |
| Operating margin | -0.8% | 3.0% | 3.7% | -1.1% | 3.2% | NA | +0.3ppts | -0.2ppts | NA |
| Net margin | 1.9% | 4.8% | 5.0% | 1.6% | 4.8% | NA | +0.3ppts | +0.0ppts | NA |

Source: Company data, CMBIGM estimates

Figure 9: DCF valuation

| DCF valuation (RMB mn) | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E | 2031E | 2032E |
|--------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| EBIT | (54) | 234 | 304 | 328 | 349 | 367 | 382 | 397 | 410 |
| Tax | (18) | (49) | (54) | (59) | (63) | (66) | (69) | (71) | (74) |
| D&A | 151 | 166 | 182 | 184 | 186 | 188 | 190 | 191 | 193 |
| Working capital | (232) | 64 | 69 | 62 | 56 | 50 | 45 | 40 | 36 |
| CAPEX | (66) | (69) | (73) | (77) | (80) | (84) | (89) | (93) | (98) |
| FCF | (220) | 345 | 427 | 438 | 447 | 454 | 459 | 464 | 468 |
| FCF Growth | NA | NA | 24% | 3% | 2% | 2% | 1% | 1% | 1% |
| Terminal Value | | | | | | | | | 3,898 |
| PV (FCF+ Terminal Value) | (220) | 302 | 327 | 294 | 262 | 233 | 206 | 183 | 1,504 |

Assumptions

| | |
|----------------------|-------|
| WACC | 14.2% |
| Tax rate | 20.0% |
| Risk free rate | 3.6% |
| Cost of debt | 0.0% |
| Beta | 1.30 |
| Market risk return | 11.8% |
| Terminal growth rate | 2.0% |

Equity Value

| | |
|----------------------------------|---------|
| PV | 2,810 |
| minus: Net cash | (9,312) |
| minus: Minority Interest | 0 |
| Equity Value | 12,123 |
| Shares (mn) | 243 |
| Target Price (US\$) based on DCF | 6.8 |

| | | WACC | | | | |
|--------|------|-------|-------|-------|-------|-------|
| | | 12.2% | 13.2% | 14.2% | 15.2% | 16.2% |
| Growth | 0.5% | 7.1 | 6.9 | 6.7 | 6.6 | 6.5 |
| | 1.0% | 7.1 | 6.9 | 6.8 | 6.6 | 6.5 |
| | 1.5% | 7.1 | 7.0 | 6.8 | 6.7 | 6.5 |
| | 2.0% | 7.2 | 7.0 | 6.8 | 6.7 | 6.6 |
| | 2.5% | 7.3 | 7.0 | 6.9 | 6.7 | 6.6 |
| | 3.0% | 7.3 | 7.1 | 6.9 | 6.8 | 6.6 |
| 3.5% | 7.4 | 7.2 | 7.0 | 6.8 | 6.6 | |

Source: Company data, CMBIGM estimates

Financial Summary

| INCOME STATEMENT | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
| YE 31 Dec (RMB mn) | | | | | | |
| Revenue | 11,351 | 9,264 | 6,994 | 7,001 | 7,724 | 8,264 |
| Cost of goods sold | (9,751) | (8,610) | (6,179) | (5,918) | (6,246) | (6,641) |
| Gross profit | 1,600 | 655 | 815 | 1,083 | 1,477 | 1,622 |
| Operating expenses | (1,905) | (1,484) | (1,340) | (1,325) | (1,441) | (1,524) |
| Selling expense | (760) | (483) | (441) | (410) | (491) | (541) |
| Admin expense | (327) | (320) | (321) | (336) | (345) | (352) |
| R&D expense | (819) | (680) | (579) | (578) | (605) | (631) |
| Operating profit | (30) | (663) | (444) | (172) | 103 | 164 |
| Other income | 275 | 166 | 81 | 69 | 67 | 66 |
| Gain/loss on financial assets at FVTPL | 44 | 8 | 0 | 0 | 0 | 0 |
| Interest income | 247 | 298 | 480 | 205 | 185 | 162 |
| Interest expense | 0 | 0 | 0 | 0 | 0 | 0 |
| Pre-tax profit | 260 | (414) | (191) | 32 | 288 | 326 |
| Income tax | (55) | (28) | (13) | (18) | (49) | (54) |
| Net profit | 583 | (443) | (205) | 14 | 239 | 271 |
| Adjusted net profit | 454 | (238) | 119 | 132 | 369 | 411 |

| BALANCE SHEET | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| YE 31 Dec (RMB mn) | | | | | | |
| Current assets | 11,916 | 10,454 | 8,134 | 10,083 | 10,539 | 11,048 |
| Cash & equivalents | 1,791 | 655 | 512 | 2,461 | 2,911 | 3,415 |
| Account receivables | 88 | 76 | 64 | 64 | 71 | 76 |
| ST bank deposits | 9,168 | 9,021 | 6,851 | 6,851 | 6,851 | 6,851 |
| Other current assets | 869 | 701 | 706 | 706 | 706 | 706 |
| Non-current assets | 1,339 | 3,292 | 4,774 | 1,756 | 1,740 | 1,716 |
| PP&E | 80 | 201 | 327 | 307 | 283 | 252 |
| Deferred income tax | 20 | 0 | 0 | 0 | 0 | 0 |
| Intangibles | 63 | 84 | 58 | 162 | 174 | 184 |
| Other non-current assets | (632) | (2,876) | (4,452) | (1,519) | (1,491) | (1,445) |
| Total assets | 13,255 | 13,746 | 12,924 | 11,839 | 12,279 | 12,764 |
| Current liabilities | 2,576 | 2,201 | 2,162 | 1,929 | 2,000 | 2,074 |
| Short-term borrowings | 1,845 | 1,592 | 1,475 | 1,230 | 1,309 | 1,391 |
| Account payables | 13 | 23 | 15 | 14 | 15 | 16 |
| Tax payable | 0 | 0 | 0 | 0 | 0 | 0 |
| Other current liabilities | 718 | 586 | 672 | 685 | 676 | 667 |
| Non-current liabilities | 169 | 128 | 138 | 138 | 138 | 138 |
| Deferred income | 119 | 73 | 48 | 48 | 48 | 48 |
| Other non-current liabilities | 50 | 55 | 90 | 90 | 90 | 90 |
| Total liabilities | 2,745 | 2,329 | 2,300 | 2,067 | 2,138 | 2,212 |
| Capital surplus | 11,764 | 11,923 | 12,000 | 12,118 | 12,249 | 12,388 |
| Total shareholders equity | 10,510 | 10,843 | 10,625 | 10,963 | 11,333 | 11,744 |

| CASH FLOW | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
|--|----------------|--------------|--------------|--------------|--------------|--------------|
| YE 31 Dec (RMB mn) | | | | | | |
| Operating | | | | | | |
| Profit before taxation | 583 | (443) | (205) | 14 | 239 | 271 |
| Depreciation & amortization | 64 | 71 | 78 | 86 | 94 | 104 |
| Tax paid | (51) | 23 | 21 | 0 | 0 | 0 |
| Change in working capital | (17) | 12 | 12 | (0) | (7) | (5) |
| Others | 660 | 740 | (387) | (89) | (275) | 230 |
| Net cash from operations | 1,240 | 403 | (481) | 10 | 51 | 600 |
| Investing | | | | | | |
| Capital expenditure | (57) | (60) | (63) | (66) | (69) | (73) |
| Acquisition of subsidiaries/ investments | 0 | 0 | 0 | 0 | 0 | 0 |
| Net proceeds from disposal of short-term investments | (2,377) | (666) | 2,167 | 0 | 0 | 0 |
| Others | (67) | (70) | (74) | (77) | (81) | (85) |
| Net cash from investing | (2,501) | (796) | 2,031 | (143) | (151) | (158) |
| Financing | | | | | | |
| Proceeds from share issues | 0 | 0 | 0 | 0 | 0 | 0 |
| Others | 595 | 0 | 0 | 0 | 0 | 0 |
| Net cash from financing | 595 | 0 | 0 | 0 | 0 | 0 |
| Net change in cash | | | | | | |
| Cash at the beginning of the year | 3,294 | 1,791 | 513 | 2,554 | 2,461 | 2,911 |
| Exchange difference | 0 | 0 | 0 | 0 | 0 | 0 |
| Others | 0 | 0 | 0 | 0 | 0 | 0 |
| Cash at the end of the year | 1,791 | 513 | 2,554 | 2,461 | 2,911 | 3,415 |
| GROWTH | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
| YE 31 Dec | | | | | | |
| Revenue | 4.0% | (18.4%) | (24.5%) | 0.1% | 10.3% | 7.0% |
| Gross profit | (29.4%) | (59.1%) | 24.5% | 32.9% | 36.4% | 9.8% |
| Operating profit | na | na | na | na | na | 59.0% |
| Net profit | (34.0%) | na | na | na | 1,594.0% | 13.5% |
| Adj. net profit | (64.0%) | na | na | 11.1% | 179.1% | 11.2% |
| PROFITABILITY | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
| YE 31 Dec | | | | | | |
| Gross profit margin | 14.1% | 7.1% | 11.7% | 15.5% | 19.1% | 19.6% |
| Operating margin | (0.3%) | (7.2%) | (6.3%) | (2.5%) | 1.3% | 2.0% |
| Adj. net profit margin | 4.0% | (2.6%) | 1.7% | 1.9% | 4.8% | 5.0% |
| Return on equity (ROE) | 5.8% | (4.1%) | (1.9%) | 0.1% | 2.1% | 2.4% |
| GEARING/LIQUIDITY/ACTIVITIES | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
| YE 31 Dec | | | | | | |
| Net debt to equity (x) | 0.0 | 0.1 | 0.1 | (0.1) | (0.1) | (0.2) |
| Current ratio (x) | 4.6 | 4.7 | 3.8 | 5.2 | 5.3 | 5.3 |
| Receivable turnover days | 2.6 | 3.2 | 3.7 | 3.4 | 3.2 | 3.2 |
| Payable turnover days | 0.4 | 0.7 | 1.1 | 0.9 | 0.9 | 0.9 |
| VALUATION | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
| YE 31 Dec | | | | | | |
| P/E | 16.9 | NA | 64.7 | 59.2 | 21.6 | 19.7 |
| P/S | 0.66 | 0.81 | 1.08 | 1.08 | 0.98 | 0.91 |
| P/B | 2.3 | 0.6 | 0.6 | 0.7 | 0.7 | 0.7 |

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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| | |
|-----------------------|---|
| 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 |
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| 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 |

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