

Huya (HUYA US)

Fundamentals to bottom out

Huya's 1Q24 results beat on margin, with topline/bottom line 1%/84% above consensus. Looking into 2Q24E, we expect revenue to achieve 5% QoQ growth, in which livestreaming would bottom out and others revenue +25% OoQ. We are positive on Huya's game-related business monetization and expect upside from multiple titles cooperating with Tencent (e.g. DNF Mobile). We are more bullish on Huya's profitability (revising FY24E profit up to RMB254mn, vs. prior of RMB132mn), supported by enhanced monetization and better efficiency. To reflect enhanced profitability, we slightly raised its adj. NPM by 0.2ppts-1.9ppts in FY24-26E. Our DCF-based TP was unchanged at US\$6.8

■ **1Q24 results beat on margin.** 1Q24 revenue declined 23% YoY, -2% QoQ (1% above consensus), in which livestreaming -32% YoY and others +173% YoY. Livestreaming segment was largely in line, with proactive business adjustments. Game-related services, advertising and other revenues surged by 173% (31% above our estimates), on rising game advertising & distribution services and in-game item sales. 1Q24 achieved adj. net profit at RMB92mn, 84% above consensus, backed by higher GPM (declining revenue sharing fees and content costs) and prudent opex control. By 1Q24, Huya repurchased US\$48.5mn of shares.

■ **Livestreaming to bottom out, with stronger game business monetization.** For 2Q24E, we expect MAU and paying users to achieve sequential growth, thanks to Tencent's traffic synergies and tournaments season. 2Q24E revenue would grow at low to mid-single digit QoQ, in our estimates. We see high visibility for livestreaming to bottom out (forecasting livestreaming +1% QoQ in 2Q24E), with competition landscape to pull back and cooperation with short video platforms. Game-related services, advertising and other revenues was estimated to grow 25% QoQ in 2Q24E, backed by stronger game monetization. Apart from Honor of Kings (HoK) 《王者荣耀》 and DreamStar 《元梦之星》, we expect Huya to cooperate with Tencent with more titles (e.g. DNF Mobile). For the bottom line, we expect adj. net profit at RMB105mn in 2Q24E, in which GPM would improve QoQ and non-GAAP opex may keep stable. We are more positive on Huya's profitability (revising FY24E profit up to RMB254mn, vs. prior of RMB132mn), supported by enhanced monetization and better efficiency.

■ **Maintain BUY.** To reflect enhanced profitability, we slightly raised its adj. NPM by 0.2ppts-1.9ppts in FY24-26E. Our DCF-based TP was unchanged at US\$6.8. Further game monetization would boost its re-rating ahead

Earnings Summary

| (YE 31 Dec) | FY22A | FY23A | FY24E | FY25E | FY26E |
|------------------------------|---------|--------|-------|-------|-------|
| Revenue (RMB mn) | 9,264 | 6,994 | 6,727 | 7,357 | 7,834 |
| YoY growth (%) | (18.4) | (24.5) | (3.8) | 9.4 | 6.5 |
| Adjusted net profit (RMB mn) | (238.3) | 119.1 | 253.7 | 369.6 | 411.7 |
| YoY growth (%) | NA | NA | 113.0 | 47.7 | 11.4 |
| EPS (Adjusted) (RMB) | (0.99) | 0.49 | 1.03 | 1.47 | 1.61 |
| Consensus EPS (RMB) | NA | NA | 0.76 | 1.42 | 1.96 |
| P/S (x) | 0.9 | 1.2 | 1.2 | 1.1 | 1.1 |
| P/E (x) | NA | 70.6 | 33.7 | 23.5 | 21.4 |
| ROE (%) | (2.2) | (1.1) | 2.3 | 3.2 | 3.5 |

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

| | |
|---------------|----------|
| Target Price | US\$6.8 |
| (Previous TP) | US\$6.8) |
| Up/Downside | 44.5% |
| Current Price | US\$4.73 |

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Stock Data

| | |
|--------------------------|-----------|
| Mkt Cap (US\$ mn) | 1,149.4 |
| Avg 3 mths t/o (US\$ mn) | 3.5 |
| 52w High/Low (US\$) | 5.10/2.16 |
| Total Issued Shares (mn) | 243.0 |

Source: FactSet

Shareholding Structure

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

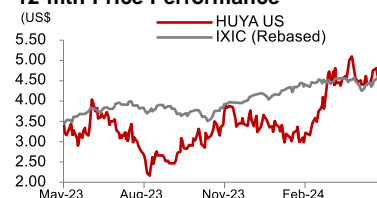
Source: HKEx

Share Performance

| | Absolute | Relative |
|-------|----------|----------|
| 1-mth | 3.5% | 2.2% |
| 3-mth | 52.1% | 47.2% |
| 6-mth | 28.5% | 10.5% |

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: 1Q24 financial review

| RMB mn | 3Q21 | 4Q21 | 1Q22 | 2Q22 | 3Q22 | 4Q22 | 1Q23 | 2Q23 | 3Q23 | 4Q23 | 1Q24 | QoQ | YoY | Consensus | Diff % |
|-------------------|--------|---------|--------|--------|--------|--------|--------|---------|--------|---------|--------|-------|------|-----------|--------|
| Revenue | 2,976 | 2,809 | 2,465 | 2,275 | 2,379 | 2,119 | 1,963 | 1,821 | 1,648 | 1,530 | 1,504 | -2% | -23% | 1,486 | 1% |
| Gross profit | 504 | 1 | 334 | 219 | 342 | (237) | 269 | 273 | 228 | 15 | 221 | 1350% | -18% | 191 | 15% |
| Net profit | 524 | (313) | (3) | (19) | 60 | (481) | 40 | 23 | 12 | (275) | 71 | NA | 79% | (38) | -287% |
| Adj. net profit | 180 | (241.7) | 47 | 6 | 106 | (440) | 85 | 115 | 103 | (190) | 92 | NA | 9% | 50 | 84% |
| Adj. EPS (RMB) | 0.75 | (1.00) | 0.19 | 0.02 | 0.44 | (1.81) | 0.35 | 0.47 | 0.42 | (0.79) | 0.39 | NA | 12% | 0.19 | 111% |
| Margin (%) | | | | | | | | | | | | | | | |
| Gross margin | 16.9% | 0.0% | 13.5% | 9.6% | 14.4% | -11.2% | 13.2% | 15.0% | 13.9% | 1.0% | 14.7% | | | | 12.9% |
| Operating margin | 5.2% | -13.8% | -0.1% | -2.5% | 2.4% | -23.5% | -0.5% | -0.1% | -1.1% | -20.7% | -2.6% | | | | -11.0% |
| Adj. net margin | 6.0% | -8.6% | 1.9% | 0.3% | 4.5% | -20.8% | 4.3% | 6.3% | 6.3% | -12.4% | 6.1% | | | | 3.4% |
| Growth (%) | | | | | | | | | | | | | | | |
| Revenue (YoY) | 5.7% | -6.1% | -5.4% | -23.2% | -20.1% | -24.5% | -20.4% | -19.9% | -30.7% | -27.8% | -23.4% | | | | -24.3% |
| Revenue (QoQ) | 0.4% | -5.6% | -12.3% | -7.7% | 4.5% | -10.9% | -7.4% | -7.2% | -9.5% | -7.2% | -1.7% | | | | -2.9% |
| Gross profit | -18.8% | -99.8% | -35.1% | -62.3% | -32.1% | NA | -19.3% | 24.6% | -33.3% | -106.4% | -18.0% | | | | -28.9% |
| Adj. net profit | -50.2% | NA | -82.5% | -97.7% | -41.1% | NA | 82.6% | 1860.3% | -2.6% | NA | 8.7% | | | | -40.8% |

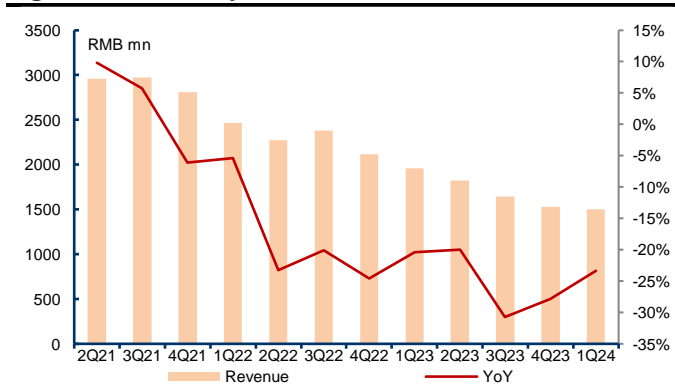
Source: Company data, Bloomberg

Figure 2: 1Q24 revenue breakdown

| | 3Q21 | 4Q21 | 1Q22 | 2Q22 | 3Q22 | 4Q22 | 1Q23 | 2Q23 | 3Q23 | 4Q23 | 1Q24 | QoQ | YoY |
|-------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|
| Revenue (RMB mn) | 2,976 | 2,809 | 2,465 | 2,275 | 2,379 | 2,119 | 1,963 | 1,821 | 1,648 | 1,530 | 1,504 | -1.7% | -23.4% |
| Live broadcasting | 2,602 | 2,613 | 2,152 | 2,052 | 2,017 | 1,975 | 1,860 | 1,716 | 1,532 | 1,343 | 1,260 | -6.2% | -32.2% |
| Others | 374 | 196 | 313 | 223 | 361 | 144 | 89 | 106 | 116 | 186 | 244 | 30.7% | 172.7% |

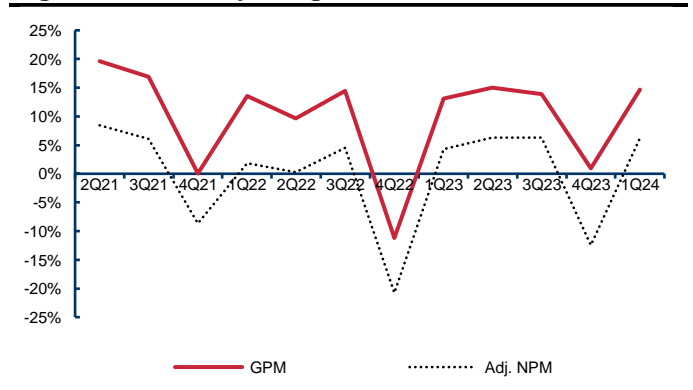
Source: Company data

Figure 3: Quarterly revenue



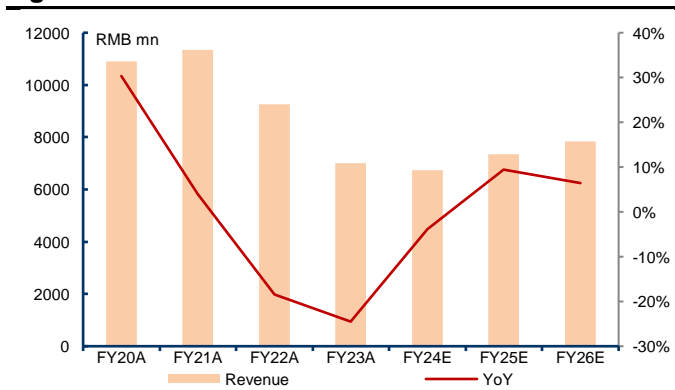
Source: Company data, CMBIGM

Figure 4: Quarterly margin



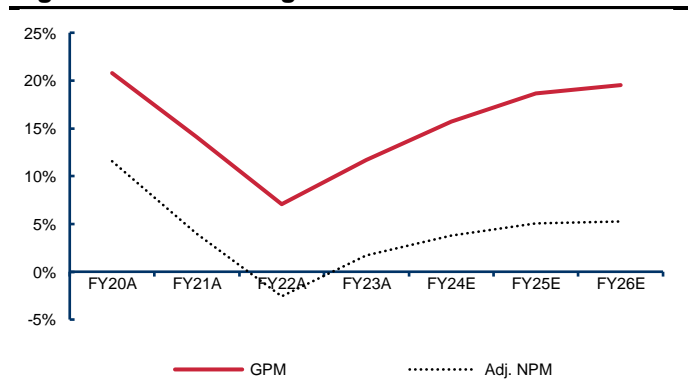
Source: Company data, CMBIGM

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 | 6,727 | 7,357 | 7,834 | 6,744 | 7,298 | 7,447 | -0.3% | 0.8% | 5.2% |
| Gross profit | 1,058 | 1,373 | 1,529 | 908 | 1,191 | 1,364 | 16.5% | 15.3% | 12.0% |
| Operating profit | (12) | 228 | 317 | (174) | 52 | 204 | NA | NA | 55.2% |
| Adj. net profit | 254 | 370 | 412 | 188 | 339 | 460 | 34.7% | 9.1% | -10.5% |
| EPS (RMB) | 1.03 | 1.47 | 1.61 | 0.76 | 1.42 | 1.96 | 35.1% | 3.6% | -17.7% |
| Gross margin | 15.7% | 18.7% | 19.5% | 13.5% | 16.3% | 18.3% | +2.3ppts | +2.3ppts | +1.2ppts |
| Operating margin | -0.2% | 3.1% | 4.0% | -2.6% | 0.7% | 2.7% | +2.4ppts | +2.4ppts | +1.3ppts |
| Net margin | 3.8% | 5.0% | 5.3% | 2.8% | 4.6% | 6.2% | +1.0ppts | +0.4ppts | -0.9ppts |

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 | 6,727 | 7,357 | 7,834 | 7,001 | 7,724 | 8,264 | -3.9% | -4.7% | -5.2% |
| Gross profit | 1,058 | 1,373 | 1,529 | 1,083 | 1,477 | 1,622 | -2.4% | -7.0% | -5.8% |
| Operating profit | (12) | 228 | 317 | (54) | 234 | 304 | NA | -2.3% | 4.3% |
| Adj. net profit | 254 | 370 | 412 | 132 | 369 | 411 | 91.7% | 0.1% | 0.2% |
| EPS (RMB) | 1.03 | 1.47 | 1.61 | 0.53 | 1.47 | 1.61 | 91.7% | 0.1% | 0.2% |
| Gross margin | 15.7% | 18.7% | 19.5% | 15.5% | 19.1% | 19.6% | +0.2ppts | -0.5ppts | -0.1ppts |
| Operating margin | -0.2% | 3.1% | 4.0% | -0.8% | 3.0% | 3.7% | +0.6ppts | +0.1ppts | +0.4ppts |
| Net margin | 3.8% | 5.0% | 5.3% | 1.9% | 4.8% | 5.0% | +1.9ppts | +0.2ppts | +0.3ppts |

Source: Company data, CMBIGM estimates

Figure 9: DCF valuation

| DCF valuation (RMB mn) | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E | 2031E | 2032E |
|--------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| EBIT | (12) | 228 | 317 | 339 | 358 | 374 | 387 | 403 | 416 |
| Tax | (34) | (49) | (55) | (61) | (64) | (67) | (70) | (73) | (75) |
| D&A | 151 | 166 | 182 | 184 | 186 | 188 | 190 | 191 | 193 |
| Working capital | (289) | 57 | 55 | 49 | 44 | 40 | 36 | 32 | 29 |
| CAPEX | (66) | (69) | (73) | (77) | (80) | (84) | (89) | (93) | (98) |
| FCF | (251) | 332 | 426 | 435 | 443 | 450 | 454 | 461 | 466 |
| FCF Growth | NA | NA | 28% | 2% | 2% | 1% | 1% | 1% | 1% |
| Terminal Value | | | | | | | | | 3,877 |
| PV (FCF+ Terminal Value) | (251) | 291 | 326 | 291 | 260 | 231 | 204 | 181 | 1,496 |

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 | 2,749 |
| minus: Net cash | (9,377) |
| minus: Minority Interest | 0 |
| Equity Value | 12,126 |
| 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 | 6.6 |
| | 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 | 6,727 | 7,357 | 7,834 |
| Cost of goods sold | (9,751) | (8,610) | (6,179) | (5,670) | (5,984) | (6,305) |
| Gross profit | 1,600 | 655 | 815 | 1,058 | 1,373 | 1,529 |
| Operating expenses | (1,905) | (1,484) | (1,340) | (1,225) | (1,306) | (1,378) |
| Selling expense | (760) | (483) | (441) | (393) | (467) | (525) |
| Admin expense | (327) | (320) | (321) | (302) | (286) | (277) |
| R&D expense | (819) | (680) | (579) | (530) | (553) | (577) |
| Operating profit | (30) | (663) | (444) | (100) | 133 | 215 |
| Other income | 275 | 166 | 81 | 68 | 65 | 65 |
| Gain/loss on financial assets at FVTPL | 44 | 8 | 0 | 0 | 0 | 0 |
| Interest income | 247 | 298 | 480 | 300 | 191 | 150 |
| Interest expense | 0 | 0 | 0 | 0 | 0 | 0 |
| Pre-tax profit | 260 | (414) | (191) | 200 | 324 | 365 |
| Income tax | (55) | (28) | (13) | (34) | (49) | (55) |
| Net profit | 583 | (443) | (205) | 166 | 274 | 310 |
| Adjusted net profit | 454 | (238) | 119 | 254 | 370 | 412 |
| BALANCE SHEET | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
| YE 31 Dec (RMB mn) | | | | | | |
| Current assets | 11,916 | 10,454 | 8,134 | 10,145 | 10,593 | 11,088 |
| Cash & equivalents | 1,791 | 655 | 512 | 2,526 | 2,968 | 3,458 |
| Account receivables | 88 | 76 | 64 | 62 | 68 | 72 |
| 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 | 11,901 | 12,333 | 12,804 |
| Current liabilities | 2,576 | 2,201 | 2,162 | 1,870 | 1,932 | 1,991 |
| Short-term borrowings | 1,845 | 1,592 | 1,475 | 1,171 | 1,242 | 1,309 |
| Account payables | 13 | 23 | 15 | 14 | 14 | 15 |
| Tax payable | 0 | 0 | 0 | 0 | 0 | 0 |
| Other current liabilities | 718 | 586 | 672 | 685 | 676 | 668 |
| 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 | 2,008 | 2,071 | 2,130 |
| Capital surplus | 11,764 | 11,923 | 12,000 | 12,088 | 12,183 | 12,285 |
| Total shareholders equity | 10,510 | 10,843 | 10,625 | 11,085 | 11,454 | 11,866 |

| CASH FLOW | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
|--|----------------|--------------|--------------|--------------|--------------|--------------|
| YE 31 Dec (RMB mn) | | | | | | |
| Operating | | | | | | |
| Profit before taxation | 583 | (443) | (205) | 166 | 274 | 310 |
| Depreciation & amortization | 64 | 71 | 78 | 86 | 94 | 104 |
| Tax paid | (51) | 23 | 21 | 0 | 0 | 0 |
| Change in working capital | (17) | 12 | 12 | 2 | (6) | (4) |
| Others | 660 | 740 | (387) | (244) | (247) | 183 |
| Net cash from operations | 1,240 | 403 | (481) | 10 | 115 | 592 |
| 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 | 2,526 | 2,968 |
| 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 | 2,526 | 2,968 | 3,458 |
| GROWTH | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
| YE 31 Dec | | | | | | |
| Revenue | 4.0% | (18.4%) | (24.5%) | (3.8%) | 9.4% | 6.5% |
| Gross profit | (29.4%) | (59.1%) | 24.5% | 29.7% | 29.9% | 11.3% |
| Operating profit | na | na | na | na | na | 62.2% |
| Net profit | (34.0%) | na | na | na | 64.8% | 13.1% |
| Adj. net profit | (64.0%) | na | na | 113.0% | 45.7% | 11.4% |
| PROFITABILITY | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
| YE 31 Dec | | | | | | |
| Gross profit margin | 14.1% | 7.1% | 11.7% | 15.7% | 18.7% | 19.5% |
| Operating margin | (0.3%) | (7.2%) | (6.3%) | (1.5%) | 1.8% | 2.7% |
| Adj. net profit margin | 4.0% | (2.6%) | 1.7% | 3.8% | 5.0% | 5.3% |
| Return on equity (ROE) | 5.8% | (4.1%) | (1.9%) | 1.5% | 2.4% | 2.7% |
| 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) | (0.2) | (0.2) |
| Current ratio (x) | 4.6 | 4.7 | 3.8 | 5.4 | 5.5 | 5.6 |
| Receivable turnover days | 2.6 | 3.2 | 3.7 | 3.4 | 3.2 | 3.3 |
| 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 | 14.0 | na | na | 50.9 | 31.4 | 28.2 |
| P/E (diluted) | 18.2 | na | 70.6 | 33.7 | 23.5 | 21.4 |
| P/B | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.7 |

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

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HOLD : Stock with potential return of +15% to -10% over next 12 months
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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

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