

Momo (MOMO US)

Mixed 1Q20; Cautious on ST recovery pace

Momo delivered mixed 1Q20 results, with revenue/adj. net profit -3.5%/-19% YoY, 3%/9% above consensus. 2Q20 guidance came in at -6.1%~-8.5% YoY, midpoint 1% below consensus. User metrics performed soft. 2Q20E would still see pressure, given moderate traffic and suppressed gifting willingness. We are conservative on its short-term recovery pace, given COVID-19 challenges and competition from short videos. We keep our financial forecast unchanged, with TP of US\$29.4 (13x FY20E P/E). As most headwinds have been priced in recent soft stock price, we maintain BUY for low valuation and upcoming catalysts (e.g. topline recovery, Tantan's monthly breakeven).

- 1Q20 beat, while guidance & user metrics were soft.** 1Q20 revenue declined 3.5% YoY, 3%/3% above our estimates/ consensus. Non-GAAP net profit declined 19% YoY, 8%/9% above our estimates/consensus. 2Q20E guidance came in at -6.1%~-8.5% YoY, midpoint 1% below consensus, mainly on COVID-19 impact. User metrics declined, with MAU -6% YoY/QoQ, paying users -8% YoY/-7% QoQ.
- Waiting for 2H20E recovery.** 1Q20 livestreaming revenue -13% YoY, while VAS +30% YoY. As stated in our preview note, user metrics declined in 1Q20, and would gradually recover in 2Q20E. Financials recovery might lag behind users. Momo would still bear near-term pressure from COVID-19 in 1H20E due to: 1) soft momentum with work resumption delay and social distancing; and 2) suppressed gifting willingness by soft consumption power under macro uncertainty, especially for top spenders. We are conservative on its live streaming growth in 2H20E, and expect livestreaming to deliver positive revenue YoY growth until 1Q21E.
- Tantan to face near-term user growth pressure.** Tantan's revenue +29% YoY (+3% QoQ) in 1Q20. Its paying users declined to 4.2mn in 1Q20 (vs. 4.5mn in 4Q19), for iOS new subscription policy and weak engagement under COVID-19. We expect Tantan's revenue to accelerate in 2H20E, supported by user recovery and enhanced features. Tantan would see narrowing net loss quarter by quarter in FY20E.
- Maintain BUY.** We keep our financial forecast unchanged, with TP of US\$29.4 (13x/10x FY20/21E P/E). Given multiple challenges from COVID-19 and traffic pressure in 1H20E, we suggest investors to wait for more clear signals for its recovery.

Earnings Summary

| (YE 31 Dec) | FY18A | FY19A | FY20E | FY21E | FY22E |
|---------------------|----------|----------|----------|----------|----------|
| Revenue (RMB mn) | 13,995 | 17,142 | 16,387 | 19,202 | 21,100 |
| YoY growth (%) | 60.5 | 22.5 | -4.4 | 17.2 | 9.9 |
| Net income (RMB mn) | 3,611 | 4,304 | 3,672 | 4,789 | 5,792 |
| EPS (RMB) | 16.9 | 18.9 | 15.9 | 20.5 | 22.6 |
| YoY growth (%) | 35.9 | 12.3 | -16.1 | 28.5 | 19.4 |
| Consensus EPS (RMB) | NA | NA | 15.3 | 19.4 | 21.2 |
| P/E (x) | 8.6 | 7.7 | 9.1 | 7.1 | 6.0 |
| P/B (x) | 3.1 | 2.6 | 2.5 | 2.4 | 2.3 |
| Yield (%) | 2.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| ROE (%) | 33.5 | 29.8 | 26.2 | 33.2 | 38.9 |
| Net gearing (%) | Net cash |

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

| | |
|---------------|-----------|
| Target Price | US\$29.4 |
| (Previous TP) | US\$29.4) |
| Up/Downside | +47.0% |
| Current Price | US\$20.0 |

China Internet Sector

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Stock Data

| | |
|--------------------------|-----------|
| Mkt Cap (US\$ mn) | 4,326 |
| Avg 3 mths t/o (US\$ mn) | 96.5 |
| 52w High/Low (US\$) | 39.4/18.6 |
| Total Issued Shares (mn) | 169.2 |

Source: Bloomberg

Shareholding Structure

| | |
|------------------|------|
| Pendal Group | 8.2% |
| Renaissance Tech | 7.9% |
| BlackRock | 4.3% |

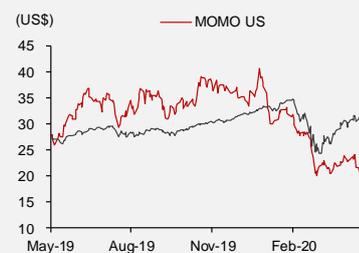
Source: Bloomberg

Share Performance

| | Absolute | Relative |
|-------|----------|----------|
| 1-mth | -12.9% | -16.5% |
| 3-mth | -34.9% | -29.7% |
| 6-mth | -45.9% | -48.8% |

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Related Reports

- 1Q20E Preview: Cautious on recovery path - 19 May 2020
- Mixed 4Q19; Waiting for 2H20E recovery - 23 Mar 2020
- Solid 3Q19; Eyes on Tantan's initiatives - 28 Nov 2019
- 3Q19E Preview: user recovery to come - 21 Oct 2019

Figure 1: CMBIS estimates vs consensus

| RMB mn, Dec-YE | CMBIS | | | Consensus | | | Diff (%) | | |
|------------------|--------|--------|--------|-----------|--------|--------|----------|----------|----------|
| | FY20E | FY21E | FY22E | FY20E | FY21E | FY22E | FY20E | FY21E | FY22E |
| Revenue | 16,387 | 19,202 | 21,100 | 16,970 | 19,553 | 21,248 | -3.4% | -1.8% | -0.7% |
| Gross Profit | 7,992 | 9,433 | 10,553 | 8,158 | 9,565 | 10,424 | -2.0% | -1.4% | 1.2% |
| Operating Profit | 3,523 | 4,710 | 5,688 | 3,542 | 4,706 | 5,274 | -0.5% | 0.1% | 7.8% |
| Net profit | 3,672 | 4,789 | 5,792 | 3,657 | 4,694 | 5,289 | 0.4% | 2.0% | 9.5% |
| EPS (RMB) | 15.94 | 20.48 | 22.62 | 15.33 | 19.42 | 21.21 | 4.0% | 5.5% | 6.7% |
| Gross Margin | 48.8% | 49.1% | 50.0% | 48.1% | 48.9% | 49.1% | +0.7ppts | +0.2ppts | +1.0ppts |
| Operating Margin | 21.5% | 24.5% | 27.0% | 20.9% | 24.1% | 24.8% | +0.6ppts | +0.5ppts | +2.1ppts |
| Net Margin | 22.4% | 24.9% | 27.4% | 21.6% | 24.0% | 24.9% | +0.9ppts | +0.9ppts | +2.6ppts |

Source: Company data, Bloomberg

Figure 2: Momo's 1Q20 review

| RMB mn | 1Q19 | 2Q19 | 3Q19 | 4Q19 | 1Q20 | QoQ | YoY | Consensus | Diff % | CMBI | Diff % |
|-------------------|--------|-------|-------|-------|--------|--------|--------|-----------|--------|--------|--------|
| Revenue | 3,723 | 4,153 | 4,452 | 4,688 | 3,594 | -23.3% | -3.5% | 3,483 | 3% | 3,478 | 3% |
| Operating profit | 422 | 966 | 1,033 | 1,249 | 594 | -52.5% | 40.9% | 635 | -6% | 599 | -1% |
| Net profit | 289 | 789 | 945 | 1,056 | 539 | -49.0% | 86.3% | 496 | 9% | 541 | 0% |
| Adj. net profit | 910 | 928 | 1,088 | 1,253 | 736 | -41.2% | -19.1% | 674 | 9% | 680 | 8% |
| EPS | 4.15 | 4.12 | 4.90 | 5.61 | 3.34 | -40.5% | -19.5% | 3.05 | 10% | 2.99 | 12% |
| Margin (%) | | | | | | | | | | | |
| Gross Margin | 50.3% | 50.9% | 51.1% | 49.8% | 47.8% | | | 47.3% | | 47.5% | |
| Operating margin | 11.3% | 23.3% | 23.2% | 26.7% | 16.5% | | | 18.2% | | 17.2% | |
| Adj. net margin | 24.5% | 22.4% | 24.4% | 26.7% | 20.5% | | | 19.3% | | 19.5% | |
| Growth (%) | | | | | | | | | | | |
| Revenue (YoY) | 34.7% | 31.7% | 22.0% | 22.0% | -3.5% | | | -6.4% | | -6.6% | |
| Revenue (QoQ) | -3.1% | 11.5% | 7.2% | 5.3% | -23.3% | | | -25.7% | | -25.8% | |
| Operating profit | -55.0% | 7.7% | 60.4% | 57.4% | 40.9% | | | 50.6% | | 42.2% | |
| Adj. net profit | 0.7% | 4.9% | 45.2% | 41.1% | -19.1% | | | -26.0% | | -25.3% | |

Source: Company data, Bloomberg, CMBIS estimates

Figure 3: 1Q20 Revenue breakdown

| RMB mn | 1Q18 | 2Q18 | 3Q18 | 4Q18 | 1Q19 | 2Q19 | 3Q19 | 4Q19 | 1Q20 | QoQ | YoY |
|----------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|------------|
| Total revenue | 2,764 | 3,152 | 3,648 | 3,865 | 3,723 | 4,153 | 4,452 | 4,688 | 3,594 | -23% | -3% |
| Live broadcasting | 2,360 | 2,621 | 2,769 | 2,975 | 2,689 | 3,100 | 3,275 | 3,383 | 2,332 | -31% | -13% |
| VAS | 235 | 352 | 573 | 726 | 904 | 948 | 1,065 | 1,189 | 1,176 | -1% | 30% |
| Mobile marketing | 42 | 142 | 117 | 123 | 81 | 76 | 82 | 93 | 57 | -39% | -29% |
| Mobile games | 119 | 35 | 28 | 26 | 39 | 23 | 16 | 14 | 13 | -12% | -67% |
| Other services | 8 | 2 | 160 | 15 | 10 | 5 | 14 | 8 | 16 | 109% | 66% |

Source: Company data, CMBIS estimates

Financial Summary

Income statement

| YE 31 Dec (RMB mn) | FY18A | FY19A | FY20E | FY21E | FY22E |
|-------------------------|----------------|----------------|----------------|----------------|-----------------|
| Revenue | 13,995 | 17,142 | 16,387 | 19,202 | 21,100 |
| Live streaming | 11,198 | 12,540 | 10,798 | 12,480 | 13,230 |
| VAS | 1,946 | 4,138 | 5,272 | 6,360 | 7,469 |
| Mobile game | 442 | 334 | 191 | 205 | 214 |
| Marketing | 221 | 93 | 91 | 114 | 137 |
| Other services | 189 | 37 | 35 | 42 | 49 |
| COGS | (7,464) | (8,455) | (8,395) | (9,769) | (10,547) |
| Gross profit | 6,531 | 8,687 | 7,992 | 9,433 | 10,553 |
| S&M | (1,766) | (2,458) | (2,447) | (2,577) | (2,629) |
| Admin. Exp. | (310) | (849) | (614) | (599) | (616) |
| R&D | (677) | (917) | (837) | (863) | (949) |
| Others | (603) | (1,069) | (655) | (768) | (844) |
| Operating profit | 3,440 | 3,743 | 3,523 | 4,710 | 5,688 |
| Financial Cost | 225 | 371 | 205 | 274 | 454 |
| Associates | 51 | 14 | 24 | 24 | 24 |
| Pre-tax Income | 3,716 | 4,128 | 3,752 | 5,009 | 6,167 |
| Income Tax | (735) | (891) | (750) | (1,002) | (1,233) |
| MI | 28 | (10) | (14) | (14) | (14) |
| Net profit | 3,009 | 456 | 431 | 574 | 707 |
| Adj. net profit | 3,611 | 4,304 | 3,672 | 4,789 | 5,792 |

Cash flow summary

| YE 31 Dec (RMB mn) | FY18A | FY19A | FY20E | FY21E | FY22E |
|---------------------------|-----------------|----------------|----------------|----------------|----------------|
| Net income | 2,981 | 3,090 | 2,873 | 3,835 | 4,933 |
| D&A | 250 | 345 | 312 | 339 | 373 |
| Change in WC | 447 | 352 | (637) | 188 | 210 |
| Others | 328 | 603 | 1,046 | 627 | 735 |
| Operating CF | 2,991 | 4,280 | 4,834 | 3,176 | 5,097 |
| Capex | (275) | (148) | (182) | (203) | (231) |
| Associates | - | - | - | - | - |
| Others | (11,789) | (3,777) | (155) | (155) | (162) |
| Investing CF | (12,064) | (3,925) | (337) | (358) | (393) |
| Equity raised | 5,172 | 900 | - | - | - |
| Change of Debts | - | - | - | - | - |
| Others | 313 | (1,670) | (2,983) | (3,851) | (5,010) |
| Financing CF | 5,485 | (770) | (2,983) | (3,851) | (5,010) |
| Net change in cash | (2,300) | 138 | (145) | 887 | 956 |
| Cash (beg of yr) | 4,752 | 2,409 | 2,514 | 2,370 | 3,403 |
| FX | - | - | - | - | - |
| Cash (end of yr) | 2,452 | 2,547 | 2,370 | 3,257 | 4,359 |

Balance sheet

| YE 31 Dec (RMB mn) | FY18A | FY19A | FY20E | FY21E | FY22E |
|-----------------------------|---------------|---------------|---------------|---------------|---------------|
| Non-current assets | 6,275 | 6,449 | 6,464 | 6,483 | 7,473 |
| Fixed asset | 412 | 358 | 383 | 402 | 485 |
| Associates | 269 | 280 | 291 | 301 | 302 |
| Intangible assets | - | - | - | - | - |
| Others | 4,826 | 5,613 | 5,604 | 5,604 | 6,440 |
| Current assets | 12,633 | 15,225 | 15,035 | 15,918 | 19,400 |
| Cash | 2,468 | 2,519 | 2,370 | 3,257 | 4,795 |
| Deposit over 3 months | 8,825 | 11,869 | 11,850 | 11,850 | 13,618 |
| Account receivable | 720 | 256 | 235 | 231 | 319 |
| Others | 621 | 582 | 581 | 581 | 667 |
| Current liabilities | 2,696 | 2,513 | 1,851 | 2,035 | 2,624 |
| Borrowings | - | - | - | - | - |
| Account payable | 718 | 689 | 516 | 571 | 711 |
| Tax payable | - | - | - | - | - |
| Others | 1,978 | 1,824 | 1,335 | 1,464 | 1,912 |
| NC liabilities | 5,160 | 5,936 | 5,927 | 5,927 | 6,811 |
| Borrowings | - | - | - | - | - |
| Others | 5,160 | 5,936 | 5,927 | 5,927 | 6,811 |
| MI | - | - | - | - | - |
| Total net assets | 11,023 | 13,225 | 13,720 | 14,440 | 17,438 |
| Shareholders' equity | 11,023 | 13,225 | 13,720 | 14,440 | 17,438 |

Key ratios

| YE 31 Dec | FY18A | FY19A | FY20E | FY21E | FY22E |
|---------------------------|--------------|--------------|--------------|--------------|--------------|
| Sales mix (%) | | | | | |
| Live streaming | 80.0 | 73.2 | 65.9 | 65.0 | 62.7 |
| VAS | 13.9 | 24.1 | 32.2 | 33.1 | 35.4 |
| Mobile game | 3.2 | 2.0 | 1.2 | 1.1 | 1.0 |
| Mobile marketing | 1.6 | 0.5 | 0.6 | 0.6 | 0.6 |
| Other services | 1.3 | 0.2 | 0.2 | 0.2 | 0.2 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Growth rate (%) | | | | | |
| Revenue | 53.6 | 21.3 | (4.7) | 17.2 | 9.9 |
| Gross profit | 40.8 | 31.7 | (8.3) | 18.0 | 11.9 |
| EBIT | 37.9 | 7.1 | (5.6) | 33.7 | 20.8 |
| Net profit | 40.2 | 17.9 | (14.8) | 30.4 | 20.9 |
| P&L ratios (%) | | | | | |
| OPM | 24.6 | 21.8 | 21.5 | 24.5 | 27.0 |
| Pre-tax margin | 26.5 | 24.1 | 22.9 | 26.1 | 29.2 |
| Net margin | 21.5 | 2.7 | 22.4 | 24.9 | 27.4 |
| Tax rate | (19.8) | (21.7) | (20.0) | (20.0) | (20.0) |
| Returns (%) | | | | | |
| ROE | 33.5 | 29.8 | 26.2 | 33.2 | 38.9 |
| ROA | 25.8 | 20.7 | 16.3 | 20.9 | 24.2 |
| Per share | | | | | |
| EPS (RMB) | 16.92 | 18.93 | 15.94 | 20.48 | 22.62 |
| DPS (RMB) | 4.30 | 0.00 | 0.00 | 0.00 | 0.00 |
| BVPS (RMB) | 49.70 | 61.01 | 63.10 | 66.10 | 69.25 |

Source: Company data, CMBIS estimates

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