

Momo Inc. (NasdaqGS: MOMO)

Suffer from increasing competition...DG to HOLD

- We expect Momo to report a weak quarter with its C2Q20 top line miss cons. by (1.1%), while its GAAP op income and GAAP net income miss cons. by (2.7%) and (2.2%), separately. Besides, its C3Q20 guidance will miss cons. by (2.4%). The weak guidance is mainly because Momo's live streaming business suffer from the pressure of competition.
- Momo's live streaming revenue is expected to decline (19%)YoY in 2Q20 and we think Momo is going to be suppressed by Douyin in the long run.
- Momo is trading at 6x 1-y forward P/E, however, we see Momo is facing strong competition and lack short term catalyst. We cut our TP for Momo from US\$23 to US\$20 and downgrade to HOLD.

Live streaming recovers slower than our expected

According to our tracking data, Momo's C2Q20 live video service revenue will decline (19%)YoY, increase 7.6%QoQ to RMB 2.51bn, lower than our previous estimate by (3.5%). Momo's live streaming business hasn't recovered and may continue to suffer from pressure because (1)According to our industry check with MCNs, live streaming users' willingness to tip hasn't recovered in second quarter. (2) More MCNs will shift their resources such as talented performers to short-video platforms such as Douyin and Kwaishou. Moreover, Momo is increasing revenue share to top MCNs to try to keep top MCNs and performers in Momo, which may post pressure on margin in the long term.

Soul's MAU is catching up with Tantan's

According to QuestMobile, Tantan's MAU decreases (21%)YoY and increase 2.2% MoM in May and decrease (8.8%)YoY and (2.7%) MoM in June while traffic of Soul, another top dating app, begins to recover slowly in second quarter with MAU decrease (7.2%)YoY and increase 2.0% MoM in May and increase (0.6)YoY and 3.2% MoM in June. Besides, Soul becomes a more serious competitor for Tantan, the MAU of the former is 18.8mn in June and the MAU of the latter is 13.2mn in June. (TBC)

Summary financial data

Highlights	2018A	2019A	2020E	2021E	2022E
Revenues (RMB mn)	13,408	16,803	16,101	16,213	16,062
Non-GAAP operating profit (RMB mn)	3,847	5,635	4,900	4,921	4,642
Non-GAAP EPADS (RMB)	15.7	22.6	17.0	17.6	16.7
GAAP EPADS (RMB)	12.9	16.3	14.5	13.4	12.6
EBITDA margin	24.4%	25.2%	26.9%	24.5%	23.1%
P/E (non-GAAP)	9.78	6.51	8.62	8.35	8.79

Source: Bloomberg, Blue Lotus (as of Aug 4, 2020)

BUY

HOLD

SELL

Target Price: US\$20	Current Price: US\$18.7
RIC: (NasdaqGS: MOMO)	BBG: MOMO US
Market cap (US\$ mn)	3,903
Average daily volume (US\$ mn)	103.9
Shares out/float (m)	168.5/N.A.

Source: Bloomberg, Blue Lotus (as of Aug 4, 2020)

Key Changes

	New	Old	Diff
BLRI Recommendation	HOLD	BUY	-
BLRI Target Price	20	23	(13.0%)
2019A EPADS (RMB)	16.3	16.3	-
2020E EPADS (RMB)	14.5	15.2	(4.61%)
2021E EPADS (RMB)	13.4	15.4	(13.0%)

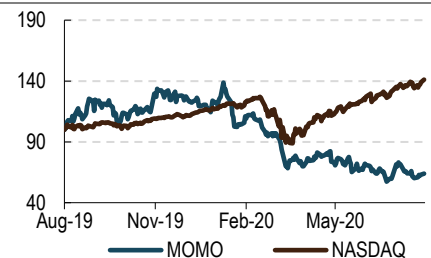
Source: Blue Lotus (as of Aug 4, 2020)

BLRI vs. The Street

No. of Bloomberg Recommendations	24
Target price vs. Bloomberg mean	(38.0%)
1-year-fwd EPS vs. Bloomberg mean	(34.0%)
Bloomberg recommendation	4.85

Source: Bloomberg Recommendation, Blue Lotus(1=SELL,5=BUY) (as of Aug 4, 2020)

Price performance and volume data



Source: Bloomberg (as of Aug 4, 2020)

Research team



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Blue Lotus Capital Advisors Limited

Momo Inc.: Financial Summary

Fiscal year ends-31-Dec

Exhibit 1. Income statement

RMB mn	2019A	2020E	2021E
Revenue	16,803	16,101	16,213
Live video service	12,336	10,414	9,486
Value-added service- ex Tantan	2,796	3,736	4,597
Tantan	1,209	1,610	1,863
Mobile marketing	332	261	210
Mobile games	92.5	37.5	3.75
Cost of Goods Sold	(8,446)	(8,190)	(7,881)
Gross Profit	8,356	7,911	8,333
Gross Margin	49.7%	49.1%	51.4%
Research and Development Expenses	(1,006)	(867)	(1,216)
Sales and Marketing Expenses	(2,416)	(2,315)	(2,675)
General and Administrative Expenses	(1,052)	(746)	(811)
Operating Profit, GAAP	4,226	4,328	3,976
Operating Profit, non-GAAP	5,635	4,900	4,921
Operating Margin, non-GAAP	33.5%	30.4%	30.4%
Interest Income	389	408	408
Net Income, GAAP	3,696	3,282	3,036
Net Income, non-GAAP	5,104	3,854	3,982
Net Margin, non-GAAP	30.4%	23.9%	24.6%

Source: Momo Inc., Blue Lotus (as of Aug 4, 2020)

Exhibit 2. Balance sheet

RMB mn	2019A	2020E	2021E
Cash and Equivalents	2,613	6,555	11,476
Prepaid Expenses and Other	599	522	577
Due from Parties (Short-Term)	4.38	16.8	(161)
Short-Term Deposits	12,313	12,313	12,313
Accounts Receivable - Trade	265	668	513
Total Current Assets	15,794	20,074	24,718
Long-Term Investments	496	732	868
Other Non-current Assets	44.0	71.5	71.5
Rental (Security)Deposits	25.0	25.0	25.0
Property Plant & Equipment, Net	346	485	500
Total Assets	22,484	26,633	31,422
Due to Parties	29.6	(23.4)	(76.5)
Accrued Expenses and other	986	1,545	2,669
Accounts Payable - Trade	714	1,094	1,485
Total Current Liabilities	2,607	3,227	4,931
Other Noncurrent Liabilities	22.7	23.0	22.8
Total Liabilities	8,765	8,454	10,148
Retained Earnings (Accumulated Deficit)	7,465	10,747	13,783
Total Shareholders' Equity	13,719	18,179	21,273
Total Liabilities and Shareholders' Equity	22,484	26,633	31,422

Source: Momo Inc., Blue Lotus (as of Aug 4, 2020)

Company Description

MOMO is China's leading non-acquaintance social networking platform. MOMO platforms include MOMO mobile application and a variety of related features, functionalities, tools, and services that MOMO provides to users, customers, and platform partners.

Industry View

China's social platforms have shown rapid growth in recent years. Social platform's user numbers are expected to grow from 755 mn in 2018 to 874 mn in 2021, with 5% GAGR. We expect China's online live-streaming market to exceed RMB 80bn in 2020. Kwai's and Douyin's live streaming businesses will raise the content costs of the industry.

Exhibit 3. Cash flow statement

RMB mn	2019A	2020E	2021E
Net Income	2,961	3,282	3,036
Depreciation	198	260	278
Stock Based Compensation	1,408	572	946
Share of Income on Equity Method Investments	23.4	7.09	7.30
Accounts Payable	52.2	379	391
Accounts Receivable	442	(403)	155
Deferred Revenue	61.6	(38.2)	236
Deferred tax assets	20.7	-	-
Amount due to a related party	(53.0)	(53.0)	(53.0)
Accrued expenses and other current liabilities	212	(12.4)	178
Total Cash Flows from Operations	5,449	4,297	5,277
Purchase of property and equipment	(187)	(292)	(294)
Payment Long-Term Investments	(64.5)	(62.3)	(60.9)
Cash received on maturity of term deposits	18,686	-	-
Total Cash Flows from Investing	(4,030)	(354)	(355)
Total Cash Flows from Financing	(1,274)	-	-
Effect of Exchange Rate on Cash	(1.33)	(1.33)	(1.33)
Net Change in Cash	144	3,942	4,921
Cash and Cash Equivalents (Beg of Period)	2,469	2,613	6,555
Cash and Cash Equivalents (End of Period)	2,613	6,555	11,476

Source: Momo Inc., Blue Lotus (as of Aug 4, 2020)

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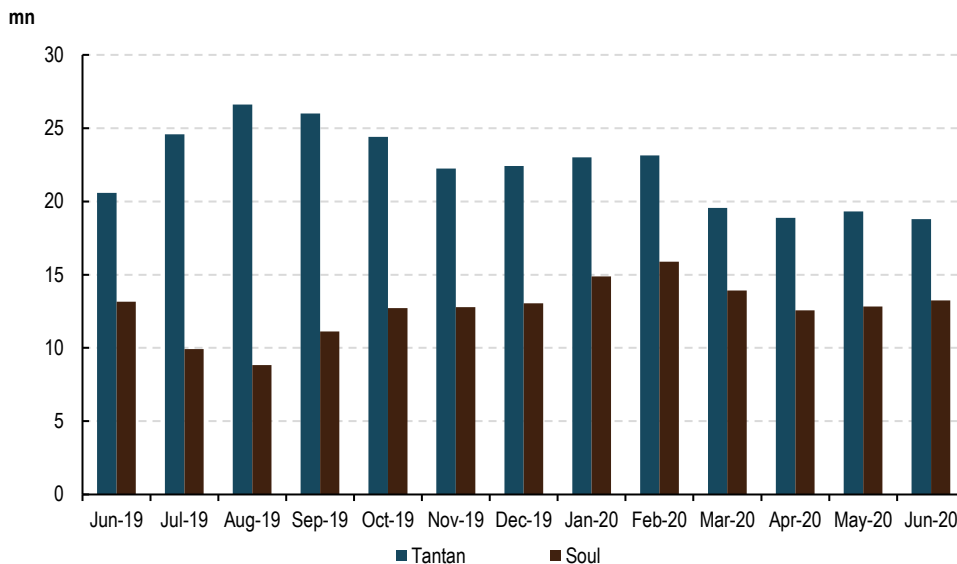
New function and apps need more time to ramp up

- Tantan’s live steaming function is in an early stage.** According to our industry check, Tantan lowered its revenue share to MCNs and performers in July. For example, MCN could enjoy as high as 60% of the revenue share in May, but the ratio decreases to 58% in July. Revenue share policy change may impact Tantan to attract new MCNs and performers, which is not a good signal for a new live streaming platform. Besides, Tantan’ lives streaming is still in testing phase and opens to 80% of the cities. We expect Tantan needs more time ramp up and is hard to serve as a short-term catalyst.
- Hertz is still far away to be Momo’s next catalyst.** Hertz, a dating app based on voice matching, has 40%QoQ growth to 2mn MAU in June, 2020. Hertz is similar to Soul through its voice matching preference matching function targeted at younger generation. Besides, Tantan launches a new dating app Qianshou(牽手), which is targeted at unmarried people who want to get married. Qianhou may serve as a defensive product to another dating app, Yidui(伊对) with 14mn MAU in June 2020.

Tantan’s live streaming function is still in testing phase.

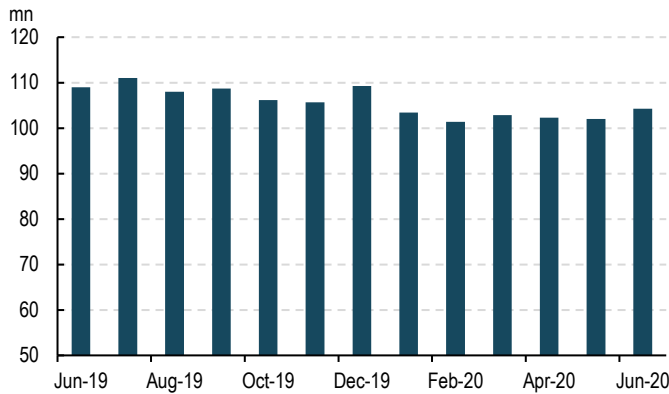
Momo is exploring new dating apps.

Exhibit 4. Tantan’s MAU vs Soul’s MAU from June 2019 to June 2020



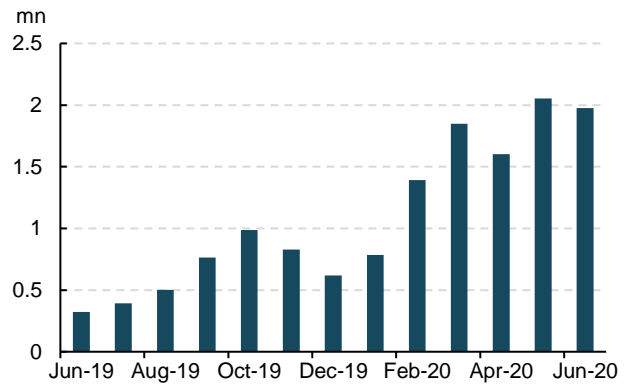
Source: QuestMobile(as of Aug 4, 2020)

Exhibit 5. Momo's MAU from June 2019 to June 2020



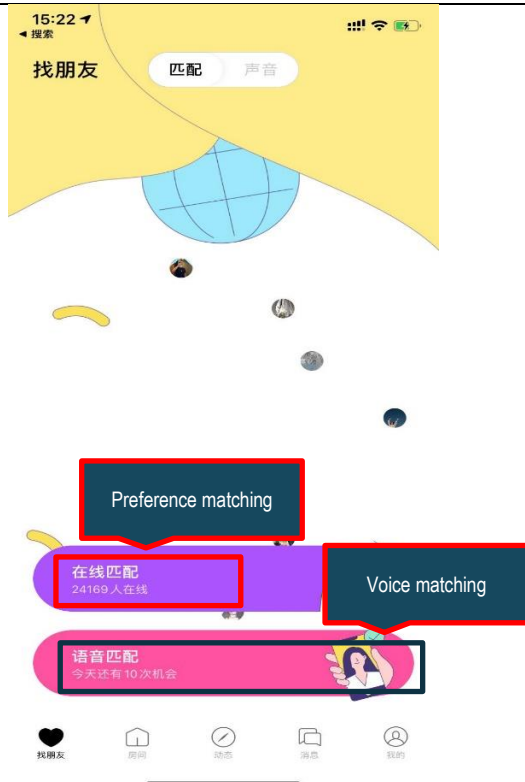
Source: QuestMobile(as of Aug 4, 2020)

Exhibit 6. Hertz's MAU from June 2019 to June 2020



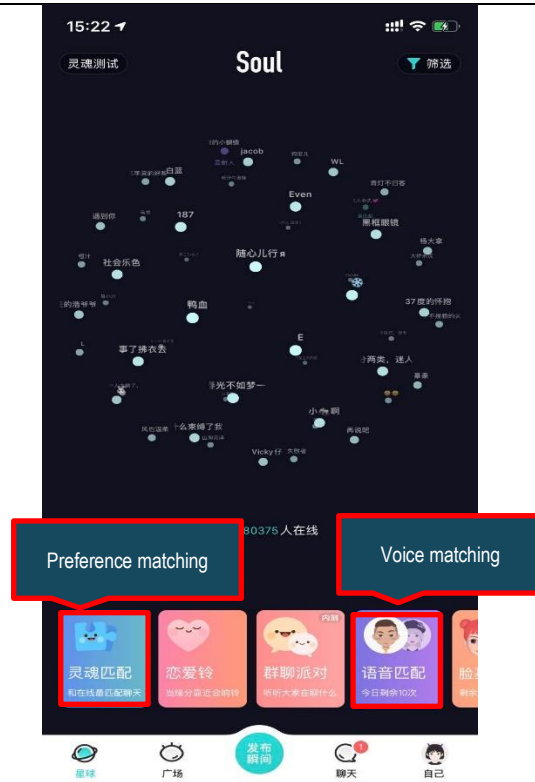
Source: QuestMobile(as of Aug 4, 2020)

Exhibit 7. Hertz's interface



Source: Hertz app(as of Aug 4, 2020)

Exhibit 8. Soul's interface



Source: Soul app(as of Aug 4, 2020)

Exhibit 9. Momo C2Q20 Preview Table

USD mn	2Q20E	2Q20C	1Q20A	QoQ	2Q19A	YoY	3Q20E	3Q20C
Revenues	3,796	3,837	3,594	5.6%	4,153	(8.58%)	4,206	4,308
Membership subscription(Value-added service)	2,510		2,332	7.6%	3,100	(19.0%)	2,675	
Mobile games	831		794	4.7%	664	25.3%	1,007	
Mobile marketing	372		382	(2.4%)	285	30.8%	430	
Live video service	54.0		57	(5.6%)	76	(29.2%)	66.2	
Other services	10.2		13	(20.0%)	23	(56.3%)	8.12	
Cost of Revenues	(1,959)		(1,877)	4.39%	(2,064)	(5.07%)	(2,092)	
Gross Profit	1,837		1,717	6.98%	2,089	(12.1%)	2,115	
Gross Margin	48.4%	48.2%	47.8%	0.6ppt	50.3%	(1.91ppt)	50.3%	
Operating Expense	(1,072)		(1,149)	(6.76%)	(1,323)	(19.0%)	(1,364)	
Sales and Marketing Expenses	(315)		(262)	20.1%	(252)	25.1%	(349)	
General and Administrative Expenses	(569)		(710)	(19.8%)	(571)	(0.20%)	(799)	
Research and Development Expenses	(187)		(177)	5.63%	(501)	(62.6%)	(216)	
Operating income, GAAP	765	787	594	28.8%	928	(17.5%)	751	
Operating margin,GAAP	20.2%	20.5%	16.5%	3.6ppt	22.3%	(2.18ppt)	17.8%	
Operating income, non-GAAP	893		763	17.1%	1,410	(36.7%)	875	
Operating margin, non-GAAP	23.5%		21.2%	0.02ppt	34.0%	(10.4ppt)	20.8%	
Earnings before Taxes	841		699	20.3%	1,009	(16.6%)	825	
Net Income ,GAAP	647	662	538	20.3%	731	(11.5%)	635	
Net Income ,non-GAAP	774		706	9.63%	1,213	(36.2%)	760	
Net Margin,GAAP	17.0%	17.2%	15.0%	2.1ppt	17.6%	(0.56ppt)	15.1%	
Net Margin,non GAAP	20.4%		19.7%	0.7ppt	29.2%	(8.83ppt)	18.1%	
Operating matrix								
Total MAU(mn)	114		108	5.1%	114	0.00%		
Momo Live streaming Monthly Paying User (mn)	1.53		1.57	(3.0%)	1.74	(12.5%)		

Source: Momo Inc., Bloomberg, Blue Lotus (as of Aug 4, 2020)

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