



TUYA Inc. (NYSE: TUYA)

C2Q21 Review: Weak guidance overshadows

- TUYA reported C2Q21 topline 118% YoY, beat our est. by 11.6%. Non-GAAP operating loss of US\$(26.5mn), larger than our est. of US\$(2.5mn). GAAP net loss of US\$(38.1mn), larger than our est. of US\$(16.7mn).
- TUYA announces weak 3Q21 topline guidance of US\$ 83-86mn, flat QoQ, and lower than our est. of US\$96mn. The weak guidance was due to Amazon cracking down on Chinese sellers.
- We maintain sell rating, lower target price US\$11 to reflect the rev. pressure.

Amazon crackdown on Chinese sellers hurt distribution

TUYA's weak 3Q guidance is due to Amazon cracking down on Chinese sellers allegedly engaging in improper promotional activities. According to local news, Amazon has been closing online stores which violate the platforms rules, of which ~50k of them headquartered in China. As TUYA only recognizes revenue to IoT PaaS business when the smart gadgets are sold to customers, it adversely impacts TUYA's topline. While we are uncertain how this incident could be resolved, we worried the potential impact of such ban could drag on for more than 1 quarter because 1) TUYA customers will need to build a brand-new store with zero customers review, 2) TUYA customers might need to engage in extra-aggressive marketing activities to regain market share which might reduce TUYA's margin. We lower our 3Q revenue estimates from US\$96mn to US\$86.5mn and lower FY forecast from US\$359mn to US\$349mn.

Operating losses worsen

TUYA non-GAAP operating losses increases 100% from US\$(13mn) to US\$(26mn). While the company has more than \$1bn in cash, we are concerned how the company could turn into profitability as cost saving generated from technology advance tends to go to end-customers, instead of suppliers in a non-monopoly business and retail is price sensitive unless there is a brand premium.

Maintain SELL rating and lower TP to USD\$11

We believe TUYA should be traded as a hardware company instead of a PaaS/SaaS company. We maintain SELL rating and lower target price to US\$11.

Summary financial data

Highlights	2019A	2020A	2021E	2022E	2023E
Revenues (US\$ mn)	106	180	349	556	987
Non-GAAP Operating profit (US\$ mn)	(68)	(60)	(47)	(24)	8
Non-GAAP EPADS (US\$)	(0.29)	(0.26)	(0.06)	(0.02)	0.03
GAAP EPADS (US\$)	(0.32)	(0.30)	(0.16)	(0.17)	(0.20)
EBITDA margin	(64.5%)	(33.6%)	(13.4%)	(4.4%)	0.8%
P/S	64.42	37.89	19.53	12.26	6.91

Source: Bloomberg, Blue Lotus (as of, 19th August, 2021)

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Blue Lotus Capital Advisors Limited

All prices are those current at the end of the previous trading session unless otherwise indicated. Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Bloomberg, Blue Lotus Capital Advisors Limited and subject companies. Consensus forward estimates are used in analysis. Past performance is not indicative of future results. Investors should consider this report as only a single factor in making their investment decision.

BUY	HOLD	SELL
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Target Price: US\$ 11.0	Current Price: US\$ 12.15
RIC: (NYSE: TUYA)	BBG: TUYA US
Market cap (US\$ mn)	6,819
Average daily volume (US\$ mn)	31.8
Shares out/float (m)	418.8/NA

Source: Bloomberg, Blue Lotus (as of, 19th August, 2021)

Key Changes

	New	Old	Diff
BLRI Recommendation	SELL	SELL	-
BLRI Target Price	11.0	13.0	(15%)
2021E EPADS (US\$)	(0.06)	(0.04)	(50%)
2022E EPADS (US\$)	(0.02)	0.02	NM
2023E EPADS (US\$)	0.03	0.1	NM

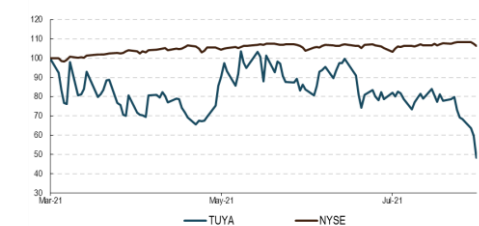
Source: Blue Lotus (as of, 19th August, 2021)

BLRI vs. The Street

No. of Bloomberg Recommendations	7
Target price vs. Bloomberg mean	(55%)
1-year-fwd EPS vs. Bloomberg mean	NA
Bloomberg recommendation	5

Source: Bloomberg Recommendation, Blue Lotus (1=SELL,5=BUY) (as of, 19th August, 2021)

Price performance and volume data



Source: Bloomberg (as of, 19th August, 2021)

Research team

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TUYA Inc.: Financial Summary

Fiscal year ends-31-Dec

Exhibit 1. Income statement

US\$ mn	2020A	2021E	2022E
Revenues	180	349	556
Cost of revenues	(118)	(199)	(295)
Gross profit	62	150	261
Gross margin	34.4%	42.9%	47.0%
*Adjusted Gross margin	23.7%	31.8%	36.0%
Total operating expenses	(132)	(265)	(384)
Research and development expenses	(77)	(156)	(245)
Selling and marketing expenses	(38)	(62)	(69)
General and Administrative Expenses	(17)	(47)	(70)
Share-based compensation expense	(9)	(69)	(99)
Income from operations, GAAP	(70)	(115)	(123)
Income from operations, non-GAAP	(60)	(47)	(24)
Net income (loss), GAAP	(67)	(104)	(109)
Net income (loss), non-GAAP	(57)	(36)	(11)

Source: TUYA Inc., Blue Lotus (19th August, 2021)

Exhibit 2. Balance sheet

US\$ mn	2020A	2021E	2022E
Cash and cash equivalents	159	1,186	1,186
Short term investment	21	21	21
Accounts receivable, net	12	24	38
Notes receivable, net	12	24	38
Inventories	42	71	106
Prepayments and other current assets	4	9	14
Current Assets	248	1,328	1,393
Property and equipment, net	4	8	14
Operating lease	12	12	12
Other non-current assets	3	3	3
Non-Current Assets	19	23	29
Total Assets	267	1,352	1,421
Accounts payable	23	39	58
Advances from customers	27	53	84
Deferred revenue	3	7	11
Accruals and other current liabilities	32	54	79
Taxes payable	0	0	0
Lease liabilities	6	6	6
Current Liabilities	92	159	238
Non-Current Liabilities	6	7	8
Total Liabilities	98	166	246
Mezzanine equity	334	0	0
Shareholders' equity (deficit)	(165)	1,186	1,175
Ordinary shares (Class A+Class B)	0	0	0
Additional Paid In Capital	27	1,414	1,414
Accumulated Profit (Loss) + other loss	(192)	(228)	(238)
Total liabilities, mezzanine equity and shareholders' equity	267	1,352	1,421

Source: TUYA Inc., Blue Lotus (19th August, 2021)

Company Description

TUYA is an IoT provider that offers IoT module, IoT platform and related IoT SaaS services. Products powered by TUYA are sold in 220+ countries and TUYA has powered more than 300mn smart devices since inception. As of Q1 2021, TUYA has 2,200 IoT PaaS customers.

Industry View

We expect shipment of China's smartphone industry to decline 7.3% in 2020, after declining 7.9% in 2019, and then grow 5.0% in 2021. We expect shipment of smartphones for the rest of the world to decline 2.9% in 2020, after declining 0.4% in 2019 and then grow 7.8% in 2021. Overall, we expect the volume CAGR for worldwide smartphone shipment to be 4.3% from 2019-2024.

Exhibit 3. Cash flow statement

US\$ mn	2020A	2021E	2022E
Net Income	(67)	(104)	(109)
Share-based compensation expense	9	69	99
Depreciation and amortization	6	3	6
Other adjustments	1	0	0
Changes in operating assets and liabilities	2	14	17
Accounts receivable	(7)	(12)	(14)
Notes receivable	(9)	(9)	(10)
Inventories	(20)	(29)	(34)
Prepayments and other current assets	4	(4)	(5)
Other non-current assets	(1)	0	0
Accounts payable	11	16	19
Advance from customers	13	25	31
Deferred revenue	3	4	5
Income tax payable	0	0	0
Accruals and other payables	12	22	26
Lease liabilities	(5)	0	0
Net cash generated from (used in) operating activities	(49)	(19)	12
Capex (PPE & Intangible assets)	(3)	(7)	(12)
Proceeds from disposal of PPE	0	0	0
Purchase of short-term & long-term investments	(197)	0	0
Proceeds from sale and maturity of short-term & long-term investments	193	0	0
Net cash generated from (used in) investing activities	(8)	(7)	(12)
Issuance/(repayment) of equity & others	(0)	1,053	0
Net cash generated from (used in) financing activities	(0)	1,053	0
Net change in cash and cash equivalents	(54)	1,027	0
Cash and cash equivalents, beginning of year	213	159	1,186
Cash and cash equivalents, end of year	159	1,186	1,186

Source: TUYA Inc., Blue Lotus (19th August, 2021)

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Exhibit 4. TUYA C2Q21 Review

USD K	C2Q21A	C2Q21E	Diff % vs E	C1Q21A	Diff % vs E	C2Q20A	Diff % vs E	3Q21E New	3Q21 Old
Revenue	84,663	75,836	11.6%	56,900	48.8%	38,833	118.0%	86,582	94,892
IOT PaaS	76,900	64,740	18.8%	49,800	54.4%	29,144	163.9%	77,688	87,399
Smart device distribution	4,400	8,453	(47.9%)	4,800	(8.3%)	8,453	(47.9%)	4,457	4,457
SaaS and others	3,363	2,643	27.3%	2,300	46.2%	1,236	172.1%	4,437	3,036
Cost of revenue	(48,961)	(43,909)	11.5%	(33,485)	46.2%	(27,085)	80.8%	(49,205)	(53,994)
Gross profit	35,702	31,927	11.8%	23,415	52.5%	11,748	203.9%	37,377	40,899
<i>Gross margin</i>	42.2%	42.1%	0.1ppt	41.2%	1ppt	30.3%	11.9ppt	43.2%	43.1%
Total operating expenses	(77,220)	(49,627)	55.6%	(64,660)	19.4%	(27,326)	182.6%	(45,860)	(50,262)
Research and development expenses	(42,657)	(31,414)		(34,709)		(16,086)		(29,386)	(32,207)
Sales and marketing expenses	(19,388)	(10,743)		(16,412)		(7,443)		(10,036)	(10,999)
General and admin expenses	(16,292)	(7,470)		(16,062)		(3,825)		(6,438)	(7,056)
Other operating income/(expenses),net	1,117	0		2,523		28		0	0
Income/(Loss) from operation, GAAP	(41,518)	(17,700)	NM	(41,245)	NM	(15,578)	NM	(8,483)	(9,363)
<i>Operating margin, GAAP</i>	(49.0%)	(23.3%)	(25.7ppt)	(72.5%)	23.5ppt	(40.1%)	8.9ppt	(9.8%)	(9.9%)
Income/(Loss) from operation, non-GAAP	(26,507)	(2,533)	NM	(24,463)	NM	(13,217)	NM	6,868	9,615
<i>Operating margin, non-GAAP</i>	(31.3%)	(3.3%)	(28.0ppt)	(43.0%)	11.7ppt	(34.0%)	2.7ppt	7.9%	10.1%
<i>Gross margin less 25% of R&D</i>	29.6%	31.7%	(2.2ppt)	25.9%	3.7ppt	19.9%	9.7ppt	34.7%	34.6%
Net income/(loss), GAAP	(38,130)	(16,681)	NM	(40,501)	NM	(14,742)	NM	(5,110)	(8,343)
<i>Net margin, GAAP</i>	(45.0%)	(22.0%)	(23.0ppt)	(71.2%)	26.1ppt	(38.0%)	(7.1ppt)	(5.9%)	(8.8%)
Net income/(loss), non-GAAP	(23,119)	(1,514)	NM	(23,719)	NM	(12,381)	NM	10,241	10,635
<i>Net margin, non-GAAP</i>	(27.3%)	(2.0%)	(25.3ppt)	(41.7%)	14.4ppt	(31.9%)	4.6ppt	11.8%	11.2%
Operating Metrics									
IoT PaaS customers	2,600			2,200	18.2%				
Premium IoT PaaS customers	285	248	14.8%	216	31.9%			376	285
Dollar-based net expansion rate	211.0%			210.0%	0.5%				

Source: TUYA Inc., Blue Lotus (19th August, 2021)

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