

CHINA
DEVELOPMENT
FINANCIAL

Momo Inc

(MOMO US/MOMO.OQ)

Cease Coverage

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- **Cease Coverage.** Given our defensive positioning on equity markets, we have decided to cease coverage on MOMO to focus on stocks that are more defensive in nature.

Financials & Key Operating Statistics					
YE Dec USD mn	2016A	2017A	2018F	2019F	2020F
Revenue	553.1	1,318.3	2,160.0	2,849.0	3,621.4
PATMI (GAAP)	145.3	317.5	507.1	663.1	853.4
PATMI (Non-GAAP)	177.0	367.1	557.1	713.1	903.4
Core EPS (US\$)	38.5	80.5	126.8	165.8	213.4
Core EPS growth (%)	945.7	114.2	57.7	30.8	28.7
P/E (x)	47.7	29.6	18.8	14.4	11.2
P/B (x)	10.9	9.1	5.8	4.0	2.8
P/S (x)	12.5	7.1	4.4	3.3	2.6
EV/EBITDA (x)	43.7	23.3	14.8	8.0	5.9
Debt/Equity	Net cash				
Net Margin (%)	26.3	24.1	23.5	23.3	23.6
ROE (%)	26.4	38.0	37.9	32.8	29.6

Source: Company Data, KGI Research

Operating expenses outpacing revenue growth as competition in live streaming space intensifies. Looking at recent developments in the Chinese live-streaming market, we believe competition in the live-streaming space could become a major headwind as live-streaming is now common form of revenue generator for many Chinese internet companies, including Tencent, Alibaba and Weibo.

While Momo might own the top 2 platforms (Momo & Tantan) to meet people in China, its ability to grow MAU depends on its ability to create new functions for consumers or its performers. Looking at the MAU growth for the latest quarter, Momo's 2.3% QoQ MAU growth was weak as compared to other platforms such as YY.com (+9.9%).

Monetisation of Tantan continues. During the conference call, management reiterated that Tantan can become a more important revenue driver next year as monetization on the platform only begun in January. Given that net losses for Tantan has narrowed down, margins could potentially improve in the coming quarters as the integration between Momo and Tantan starts taking shape. That is however, not a strong catalyst for us to maintain our BUY call.

Cease Coverage		
Price as of 8 Mar 19 (USD)	32.72	Performance (Absolute)
12M TP (\$)	-	1 Month (%) 14.0
Previous TP (\$)	58.93	3 Month (%) 30.4
Upside (%)	-	12 Month (%) -11.6
Trading data		Perf. vs NDXT Index (Red)
Mkt Cap (\$mn)	6,760	
Issued Shares (mn)	166	
Vol - 3M Daily avg (mn)	3.5	
Val - 3M Daily avg (\$mn)	98.9	
Free Float (%)	-	
Major Shareholders		Previous Recommendations
Pendel Group	5.2%	6-Jun-18 BUY \$58.93
Blackrock	4.1%	-
Prime Capital	3.9%	-

Valuation & Action: Given our defensive positioning on equity markets, we have decided to cease coverage on MOMO to focus on stocks that are more defensive in nature.

Risks: Penalties (monetary and non-monetary) relating to legal and regulatory measures could rise if there are violations on the platform, such as illicit video content and misuse of platform. A decline in MAU due to increased competition from its peers.

Financials

INCOME STATEMENT (USD mn)	2016A	2017A	2018F	2019F	2020F
Net revenue	553.1	1,318.3	2,071.2	2,418.8	2,706.5
Cost of revenue	(241.5)	(649.3)	(1,035.6)	(1,209.4)	(1,353.2)
Gross profit	311.6	669.0	1,035.6	1,209.4	1,353.2
Operating expenses					
Research and development	(31.4)	(51.5)	(82.8)	(96.8)	(108.3)
Sales and marketing	(97.2)	(217.4)	(352.1)	(411.2)	(460.1)
General and administrative	(39.0)	(62.6)	(82.8)	(96.8)	(108.3)
Operating profit/(loss) (GAAP)	144.5	360.9	559.2	653.1	730.7
Operating profit/(loss) (Non-GAAP)	176.2	410.5	609.2	703.1	780.7
Pre-tax profit (PBT) (GAAP)	146.9	378.1	580.4	676.4	771.6
Income tax benefit/(expenses)	(5.1)	(66.0)	(98.7)	(115.0)	(131.2)
Net income (GAAP)	145.3	318.0	487.7	567.3	646.3
Net income (Non-GAAP)	177.0	367.1	537.2	616.8	695.8
Minority interest	0.0	0.5	0.5	0.5	0.5
Net income (excl. NCI) (GAAP)	145.3	317.5	487.2	566.8	645.8
Net income (excl. NCI) (Non-GAAP)	177.0	366.6	536.7	616.3	695.3
BALANCE SHEET (USD mn)	2016A	2017A	2018F	2019F	2020F
Cash and cash equivalents	257.6	685.8	741.2	1,567.2	2,397.5
Term deposits	393.8	373.8	423.8	473.8	523.8
Trade and other receivables	36.1	39.6	51.5	66.9	87.0
Prepaid expenses and other current assets	32.8	89.5	100.9	120.7	144.5
Total current assets	720.2	1,188.7	1,317.4	2,228.6	3,152.8
Net Property, Plant & Equipment	13.9	39.8	660.5	485.5	365.4
Long term investments	31.9	44.3	44.3	44.3	44.3
Other non-current assets	3.7	29.2	29.3	29.3	29.3
Total assets	769.7	1,302.0	2,051.4	2,787.7	3,591.8
Trade and other payables (current)	40.5	74.5	113.5	132.5	148.3
Deferred revenue	41.3	64.9	82.8	96.8	108.3
Accrued expenses and other current liabilities	52.0	120.6	192.2	223.5	249.4
Total current liabilities	133.7	260.0	388.6	452.8	505.9
Deferred tax liabilities, non-current	0.0	1.9	39.1	39.1	39.1
Other non-current liabilities	2.0	2.3	3.8	3.8	3.8
Total liabilities	135.7	264.2	431.5	495.7	548.9
Shareholder's Equity	634.0	1,037.8	906.8	1,578.8	2,329.8
Total liabilities and equity	769.7	1,302.0	1,338.3	2,074.6	2,878.7
CASH FLOW STATEMENT (USD mn)	2016A	2017A	2018F	2019F	2020F
Net income	145.3	318.0	487.7	567.3	646.3
Depreciation & amortisation	8.4	12.4	12.5	207.3	152.4
Other non-cash adjustments	34.0	48.4	44.1	44.1	44.1
Changes in working capital	30.6	48.7	102.4	(2.5)	(22.1)
Cash flows from operating activities	218.3	427.6	646.6	816.2	820.7
Capital expenditure	(7.0)	(32.3)	(633.2)	(32.3)	(32.3)
Other investing cashflow	(111.3)	5.0	42.0	42.0	42.0
Cash flows from investing activities	(118.3)	(27.3)	(591.2)	9.7	9.7
Borrowings raised / (repaid)	0.0	0.0	0.0	0.0	0.0
Equity raised / (bought back)	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Other financing cash flow	0.0	0.4	0.0	0.0	0.0
Cash flows from financing activities	0.0	0.4	0.0	0.0	0.0
Net increase/(decrease) in cash and cash equivalents	245.2	718.7	543.1	1,393.2	1,476.6
FX Effects, Others	(11.9)	27.5	0.0	0.0	0.0
Beginning Cash	169.5	257.6	685.8	741.2	1,567.2
Ending Cash	257.6	685.8	741.2	1,567.2	2,397.5
KEY RATIOS	2016A	2017A	2018F	2019F	2020F
Core EPS (USD cents)	38.5	80.5	121.8	141.8	161.5
P/E (x)	47.7	29.6	19.6	16.8	14.8
P/B (x)	10.9	9.1	10.5	6.0	4.1
P/S (x)	12.5	7.1	4.6	3.9	3.5
Growth (%)					
Revenue growth	312.8	138.3	57.1	16.8	11.9
PATMI growth	960.5	118.6	53.4	16.3	13.9
EPS growth	945.7	114.2	51.5	16.3	13.9
Profitability (%)					
Gross margin	56.3	50.7	50.0	50.0	50.0
Operating margin	26.1	27.4	27.0	27.0	27.0
PATMI margin	26.3	24.1	23.5	23.4	23.9
ROE	26.4	38.0	50.1	45.6	33.0

Source: Company Data, KGI Research

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BUY	>10% total return over the next 12 months
HOLD	-10% to +10% total return over the next 12 months
SELL	<-10% total return over the next 12 months

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