



Momo Inc

(MOMO US/MOMO.OQ)

Blow out quarter; expect VAS momentum to continue as key driver

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- 2Q18 results in line.** Momo reported 2Q18 revenue of US\$494.3mn (+58.3% YoY) and net profits (Non GAAP) of US\$140.2mn (+90.1% YoY), which exceeded our expectations and accounted for 22.9% and 25.2% of our full-year estimates, respectively.
- Robust growth across segments.** 2Q18 results were largely driven by Momo's live streaming business, which continue to be the key driver of growth. Growth in other operating segments also remained outstanding, with the exception of the mobile games segment, declining 40.4% YoY.
- MAU growth in line with our expectations.** MAU (excl. Tantan) grew 4.5% QoQ to 108.0mn from 103.3mn in 1Q18. Paying users of Momo's live video service and value-added service (incl. 3.1mn paying users of Tantan in June 2018) also grew 63.4% YoY, from 7.1mn to 11.6mn in 2Q18.

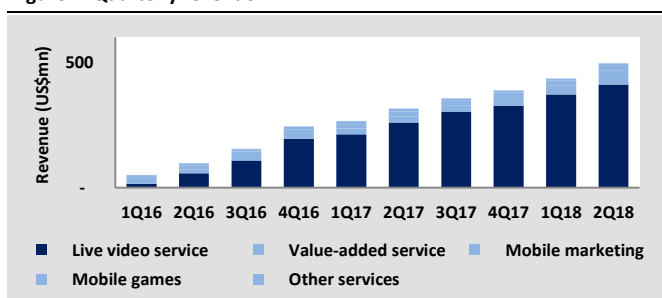
Financials & Key Operating Statistics					
YE Dec USD mn	2016A	2017A	2018F	2019F	2020F
Revenue	553.1	1,318.3	2,160.0	2,849.0	3,621.4
PATMI (GAAP)	145.3	317.5	507.1	663.1	853.4
PATMI (Non-GAAP)	177.0	367.1	557.1	713.1	903.4
Core EPS (US\$)	38.5	80.5	126.8	165.8	213.4
Core EPS growth (%)	945.7	114.2	57.7	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 cash	Net cash	Net cash	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

2Q18 results continue to impress with ARPU growing at a healthy pace and increased number of paid users. QoQ, paying users of live video service and value-added service grew 200k each to 4.6mn and 5.1mn while ARPU grew 5.8% and 43.7%, to US\$89.3 and US\$10.4 respectively.

New functionalities will help to drive growth. In 2Q18, Momo introduced a Karaoke function to its app and optimized algorithms to match strangers based on the potential which they will interact with each other rather than purely ranking them based on physical proximity. As a result, the number of greetings and response rate increased by more than 10% in June as compared to those in March.

Figure 1: Quarterly revenue



Source: Company Data, KGI Research

BUY (Maintain)			
Price as of 30 Aug 18 (USD)	47.56	Performance (Absolute)	
12M TP (\$)	60.08	1 Month (%)	13.6
Previous TP (\$)	58.93	3 Month (%)	22.4
Upside (%)	26.3	12 Month (%)	39.6
Trading data		Perf. vs NDX Index (Red)	
Mkt Cap (\$mn)	9,725		
Issued Shares (mn)	164		
Vol - 3M Daily avg (mn)	5.4		
Val - 3M Daily avg (\$mn)	240.4		
Free Float (%)	-		
Major Shareholders		Previous Recommendations	
Pendel Group	5.2%	6-Jun-18	BUY \$58.93
Blackrock	4.1%	-	-
Prime Capital	3.9%	-	-

Integration of Tantan starting to contribute to growth.

Revenues from value added service (VAS) grew 124% YoY to US\$55.2mn, driven by the virtual gifting business on Momo's app and initial contribution from Tantan's membership subscription business. Excluding Tantan's revenue for the month of June, the VAS business grew by 105% YoY.

During the quarterly earnings call, Tantan's CEO, Wang Yu guided for 3Q18 average monthly revenues to grow 60 – 70% QoQ, and highlighted that Tantan still has significant room to expand, unlike Tinder, given that Singles in Asia made up ~75% of total Singles in the world.

Key developments to watch. Phanta City Variety Show – The reality show featured elusive Chinese pop star Faye Wong in its debut episode, garnering close to 500k views on YouTube and more than 3.0mn hash tag topic discussions on Weibo. Given the continued momentum, this could turn out to be a hit series at the end of the season, which should increase Momo's brand equity and allow their top performers to be viewed on the same page with real world celebrities.

Valuation & Action: Maintain BUY with adjusted TP of US\$60.08, revised up from US\$58.93 previously.

We adjust our revenue growth forecast to 64/32/27% in 2018/19/20F. Our investment thesis remains intact, with Momo remaining as the go-to platform for both established and unestablished performers alike. We expect this segment to continue experiencing strong growth (2017 – 2020F CAGR: 40.1%) as live video streaming users in China are projected to reach 500mn by 2020F.

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.

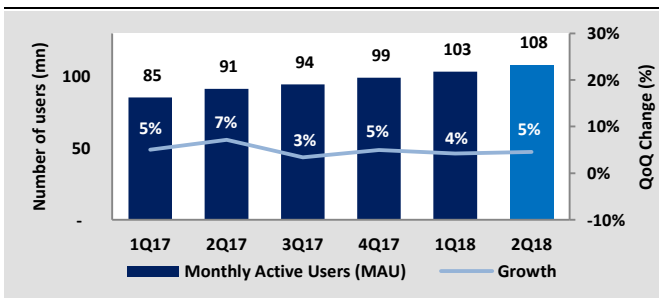
Results update

Figure 2: Results comparison

FYE Sep (USDmn)	2Q18	2Q17	yoy % chg	1Q18	qoq % chg	FY18F	Comments
Revenues:							
Live video service	411.0	259.4	58.4	371.5	10.6	1,872.3	Increase in number of paying users and ARPPU Continuous growth in virtual gift business and to a lesser extent, consolidation of Tantan's membership subscription revenues
Value-added service	55.2	24.6	124.1	37.0	49.3	150.6	Improved sell-through of existing advertisement inventories and increased demand from brand marketers
Mobile marketing	22.3	19.0	17.1	18.7	19.0	107.9	
Mobile games	5.5	9.1	(40.3)	6.6	(17.9)	28.5	Decrease in quarterly paying users
Other services	0.4	0.0	3,440.0	1.3	(72.5)	0.7	
Total revenues	494.3	312.2	58.3	435.1	13.6	2,160.0	Mainly driven by live video services and VAS
Operating profit (GAAP)	140.6	73.7	90.7	147.5	(4.7)	583.2	
Net income	117.4	60.6	93.9	129.4	NM	507.6	
Net income attributable to Momo	117.8	60.8	93.8	129.9	(9.3)	507.1	Higher revenue contribution
							Higher operating expenses attributable to an increase in revenue sharing and production costs pertaining to Phanta City
Operating margin	28.4%	23.6%	4.8 ppts	33.9%	-5.5 ppts	27.0%	
Net margin	23.8%	19.4%	4.4 ppts	29.7%	-6.0 ppts	23.5%	
EPS (US cents)	29.0	15.4	88.5	32.6	(10.8)	126.8	

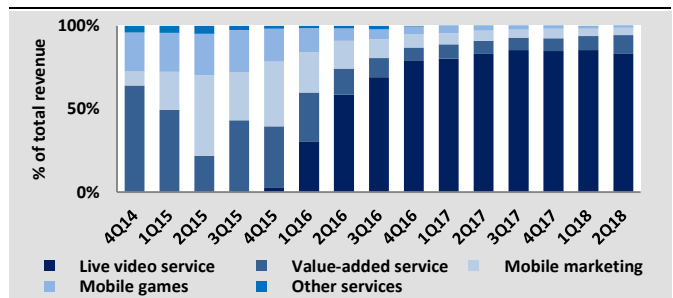
Source: Company Data, KGI Research

Figure 3: Monthly active users growing steadily



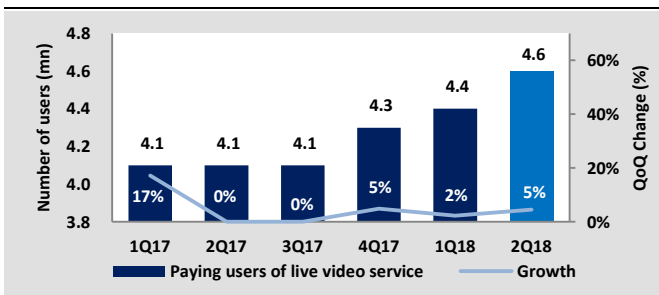
Source: Company Data, KGI Research

Figure 4: VAS % of revenues inching up



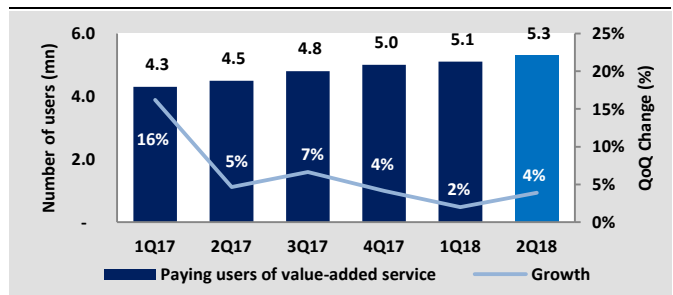
Source: Company Data, KGI Research

Figure 5: QoQ Growth in live video service users still keeping pace



Source: Company Data, KGI Research

Figure 6: Paying users of VAS also increasing steadily QoQ



Source: Company Data, KGI Research

Figure 7: DCF Valuation

DCF	2017A	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F
Live video service	1,102.6	1,872.3	2,482.7	3,165.4	3,836.5	4,649.8	5,400.7	6,273.0	6,652.5	7,055.0	7,481.8
Value-added service	103.1	150.6	199.7	254.6	308.6	374.1	434.5	504.6	535.2	567.5	601.9
Mobile marketing	76.2	107.9	143.0	182.4	221.0	267.9	311.2	361.4	383.3	406.5	431.0
Mobile games	35.6	28.5	22.8	18.2	18.2	18.2	18.2	18.2	18.2	18.2	18.2
Other services	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Net revenue	1,318.3	2,160.0	2,849.0	3,621.4	4,385.1	5,310.7	6,165.3	7,158.0	7,589.9	8,047.9	8,533.7
<i>YoY growth (%)</i>		63.9%	31.9%	27.1%	21.1%	21.1%	16.1%	16.1%	6.0%	6.0%	6.0%
Cost of revenues	(649.3)	(1,080.0)	(1,424.5)	(1,810.7)	(2,236.4)	(2,708.5)	(3,144.3)	(3,650.6)	(3,870.8)	(4,104.4)	(4,352.2)
Research and development	(51.5)	(86.4)	(114.0)	(144.9)	(131.6)	(159.3)	(185.0)	(214.7)	(227.7)	(241.4)	(256.0)
Sales and marketing	(217.4)	(367.2)	(484.3)	(615.6)	(657.8)	(796.6)	(924.8)	(1,073.7)	(1,138.5)	(1,207.2)	(1,280.1)
General and administrative	(62.6)	(86.4)	(114.0)	(144.9)	(175.4)	(212.4)	(246.6)	(286.3)	(303.6)	(321.9)	(341.3)
Cost and operating expense	(980.8)	(1,620.0)	(2,136.7)	(2,716.0)	(3,201.1)	(3,876.8)	(4,500.7)	(5,225.3)	(5,540.6)	(5,875.0)	(6,229.6)
Other operating profit/(loss)	23.4	43.2	57.0	72.4	87.7	106.2	123.3	143.2	151.8	161.0	170.7
EBIT	360.9	583.2	769.2	977.8	1,271.7	1,540.1	1,788.0	2,075.8	2,201.1	2,333.9	2,474.8
Tax	(66.0)	(102.7)	(134.7)	(173.7)	(227.7)	(278.1)	(325.8)	(380.9)	(409.4)	(439.3)	(470.9)
Depreciation & amortisation	12.4	12.5	207.3	152.4	114.7	88.8	71.1	58.9	50.6	44.8	40.9
Non-cash charges	48.4	44.1	44.1	44.1	44.1	44.1	44.1	44.1	44.1	44.1	44.1
Change in net working capital	57.7	111.3	92.0	98.8	99.9	116.9	92.6	120.1	4.5	(4.2)	(15.1)
Capex	(32.3)	(633.2)	(32.3)	(32.3)	(32.3)	(32.3)	(32.3)	(32.3)	(32.3)	(32.3)	(32.3)
FCFF	381.1	15.2	945.6	1,067.1	1,270.5	1,479.6	1,637.7	1,885.7	1,858.5	1,947.1	2,041.5
<i>YoY growth (%)</i>				12.8%	19.1%	16.5%	10.7%	15.1%	-1.4%	4.8%	4.8%
Terminal value											17,908.5
Implied enterprise value		11,394.2									
Add: Cash		1,079.8									
Less: Debt		-									
Less: Preferred stock		-									
Less: Minority interest		0.5									
Implied equity value		12,474.5									
Diluted ADR		207.6									
Implied target price (US\$)		60.08									
<i>Upside (%)</i>		26.3%									
Implied P/E (x)		23.7	18.1	14.1	10.8	8.8	7.5	6.4	6.0	5.6	5.2
Implied EV/EBITDA (x)		19.1	11.7	10.1	8.2	7.0	6.1	5.3	5.1	4.8	4.5

Source: KGI Research

Figure 8: DCF Assumptions

Sensitivity Analysis		WACC							
		11%	12%	13%	13.6%	15%	16%	17%	
LTG	1.7%	82.10	72.95	65.53	59.41	54.27	49.90	46.15	
	1.8%	82.60	73.33	65.82	59.63	54.44	50.04	46.27	
	1.9%	83.11	73.71	66.11	59.85	54.62	50.18	46.38	
	2.0%	83.64	74.10	66.40	60.08	54.80	50.32	46.49	
	2.1%	84.18	74.50	66.71	60.31	54.98	50.47	46.61	
	2.2%	84.73	74.90	67.01	60.55	55.16	50.61	46.73	
	2.3%	85.30	75.32	67.33	60.79	55.35	50.76	46.85	
Assumptions									
	Risk free rate								3.2%
	Beta								1.2
	Market return								11.8%
	Cost of equity								13.6%
	Cost of debt								0.0%
	Tax rate								25.0%
	D/C								0.0%
	WACC								13.6%
	Terminal growth rate								2.0%

Source: KGI Research

Figure 9: Comparables

Company Name	Currency	Last Price	Currency Adj. Market Cap (US\$ mn)	P/E (x)		P/S (x)		PEG (x)		EPS CAGR (%)	(YTD) Price Performance (%)
				FY17	FY18F	FY17	FY18F	FY17	FY18F		
Momo	USD	47.66	9,709	23.6x	23.7x	5.7x	4.8x	0.4x	0.3x	45.3%	94%
Facebook	USD	175.90	507,862	24.3x	21.9x	10.5x	9.1x	1.1x	0.9x	20.1%	0%
Alibaba	USD	178.50	462,705	56.5x	31.9x	11.1x	8.0x	1.4x	1.1x	22.2%	4%
Tencent	HKD	360.80	437,737	37.0x	36.4x	10.6x	9.2x	1.7x	1.3x	21.1%	-11%
Baidu	USD	225.87	79,079	28.8x	21.9x	5.7x	5.2x	1.2x	1.1x	18.3%	-4%
Twitter	USD	35.35	26,790	113.3x	52.6x	9.8x	9.2x	1.1x	1.0x	45.8%	47%
Weibo	USD	79.86	17,821	37.8x	28.8x	12.1x	10.0x	-	-	-	-23%
Match	USD	50.83	14,075	24.6x	35.6x	9.0x	8.2x	1.3x	1.1x	27.7%	62%
YY	USD	77.92	4,930	14.6x	10.3x	2.4x	2.2x	0.4x	0.3x	28.8%	-31%
Sina	USD	72.00	5,146	34.1x	23.3x	2.7x	2.3x	-	-	-4.6%	-28%
Tian Ge	HKD	5.19	841	18.4x	12.9x	6.4x	-	-	-	-	-16%
Average				38.9x	27.6x	8.0x	7.0x	1.2x	1.0x	22.4%	

Source: Bloomberg, KGI Research

Financials

INCOME STATEMENT (USD mn)	2016A	2017A	2018F	2019F	2020F
Net revenue	553.1	1,318.3	2,160.0	2,849.0	3,621.4
Cost of revenue	(241.5)	(649.3)	(1,080.0)	(1,424.5)	(1,810.7)
Gross profit	311.6	669.0	1,080.0	1,424.5	1,810.7
Operating expenses					
Research and development	(31.4)	(51.5)	(86.4)	(114.0)	(144.9)
Sales and marketing	(97.2)	(217.4)	(367.2)	(484.3)	(615.6)
General and administrative	(39.0)	(62.6)	(86.4)	(114.0)	(144.9)
Operating profit/(loss) (GAAP)	144.5	360.9	583.2	769.2	977.8
Operating profit/(loss) (Non-GAAP)	176.2	410.5	633.2	819.2	1,027.8
Pre-tax profit (PBT) (GAAP)	146.9	378.1	604.4	792.4	1,021.7
Income tax benefit/(expenses)	(5.1)	(66.0)	(102.7)	(134.7)	(173.7)
Net income (GAAP)	145.3	318.0	507.6	663.6	853.9
Net income (Non-GAAP)	177.0	367.1	557.1	713.1	903.4
Minority interest	0.0	0.5	0.5	0.5	0.5
Net income (excl. NCI) (GAAP)	145.3	317.5	507.1	663.1	853.4
Net income (excl. NCI) (Non-GAAP)	177.0	366.6	556.6	712.6	902.9
BALANCE SHEET (USD mn)	2016A	2017A	2018F	2019F	2020F
Cash and cash equivalents	257.6	685.8	736.9	1,722.2	2,849.8
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	1,313.0	2,383.7	3,605.1
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	2,047.1	2,942.7	4,044.1
Trade and other payables (current)	40.5	74.5	118.4	156.1	198.4
Deferred revenue	41.3	64.9	86.4	114.0	144.9
Accrued expenses and other current liabilities	52.0	120.6	200.2	262.2	331.7
Total current liabilities	133.7	260.0	405.0	532.3	675.0
Deferred tax liabilities, non-current	0.0	1.9	0.0	0.0	0.0
Other non-current liabilities	2.0	2.3	2.3	2.3	2.3
Total liabilities	135.7	264.2	407.3	534.6	677.3
Shareholder's Equity	634.0	1,037.8	1,639.8	2,408.2	3,366.8
Total liabilities and equity	769.7	1,302.0	2,047.1	2,942.7	4,044.1
CASH FLOW STATEMENT (USD mn)	2016A	2017A	2018F	2019F	2020F
Net income	145.3	318.0	507.6	663.6	853.9
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	78.1	60.6	67.4
Cash flows from operating activities	218.3	427.6	642.3	975.7	1,117.8
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	558.6	1,649.0	1,981.4
FX Effects, Others	(11.9)	27.5	0.0	0.0	0.0
Beginning Cash	169.5	257.6	685.8	736.9	1,722.2
Ending Cash	257.6	685.8	736.9	1,722.2	2,849.8
KEY RATIOS	2016A	2017A	2018F	2019F	2020F
Core EPS (USD cents)	38.5	80.5	126.8	165.8	213.4
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
Growth (%)					
Revenue growth	312.8	138.3	63.9	31.9	27.1
PATMI growth	960.5	118.6	59.7	30.8	28.7
EPS growth	945.7	114.2	57.7	30.8	28.7
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	23.3	23.6
ROE	26.4	38.0	37.9	32.8	29.6

Source: Company Data, KGI Research

August 30, 2018

KGI Securities (Singapore) Pte. Ltd.

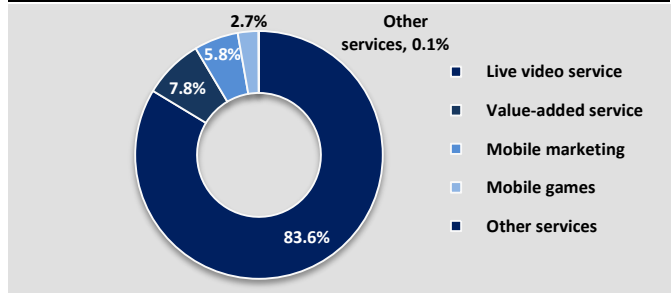
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Figure 10: Company profile

Momo is a leading mobile social networking platform in China. Momo connects people in a personal and lively way through a revolutionary mobile-based social networking platform. With powerful and precise location-based features, Momo enables users to connect with each other and expand relationships from online to offline. Its platform includes the Momo mobile application and a variety of related features, functionalities, tools and services that it provides to users, customers and platform partners. Leveraging its social interest graph engine and analysis of user behaviour data, Momo provides users a customized experience.

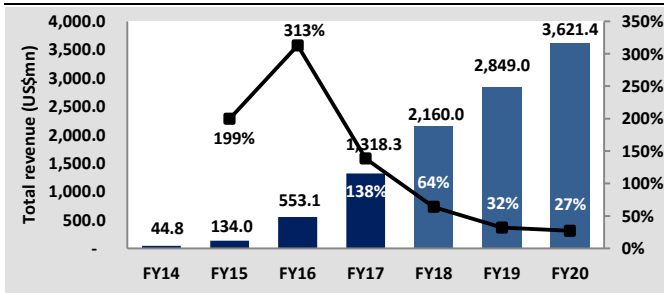
Source: Company

Figure 11: 2017 Sales mix



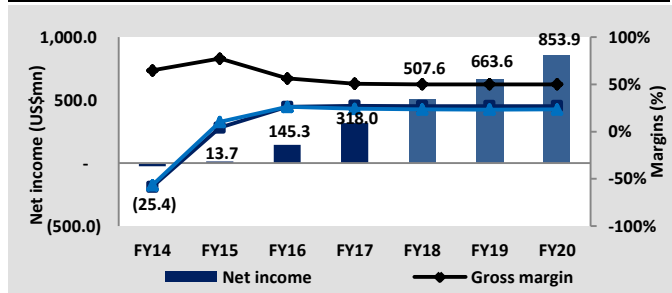
Source: Company Data, KGI Research

Figure 12: Revenue



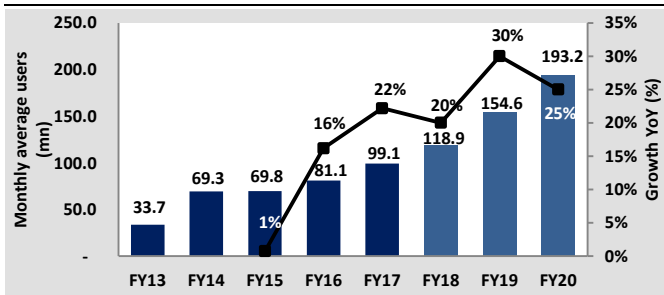
Source: Company Data, KGI Research

Figure 13: Net income and margins



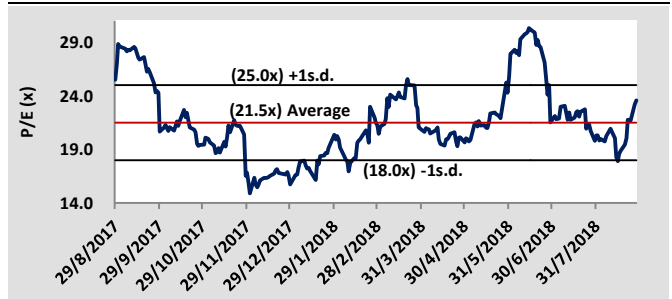
Source: Company Data, KGI Research

Figure 14: MAU



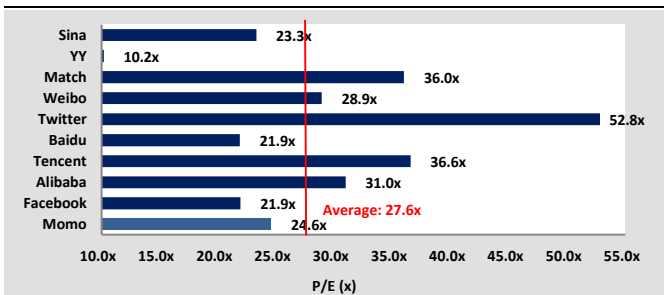
Source: Company Data, KGI Research

Figure 15: P/E Band (1 year)



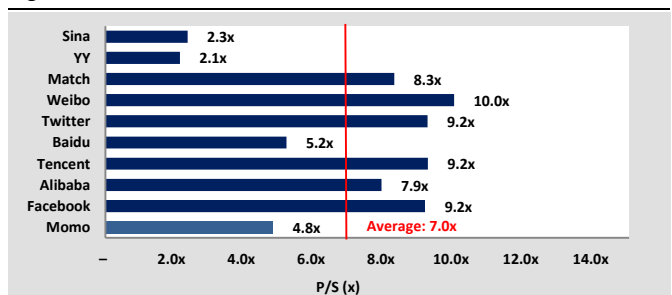
Source: Bloomberg, KGI Research

Figure 16: Price/Earnings



Source: Bloomberg, KGI Research

Figure 17: Price/Sales



Source: Bloomberg, KGI Research

KGI's Ratings

Rating	Definition
	KGI Securities Research's recommendations are based on an Absolute Return rating system.
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HOLD	-10% to +10% total return over the next 12 months
SELL	<-10% total return over the next 12 months

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